თიბისი ბანკი
TBC BANK

On your side

Annual Report 2014

Supporting Georgian art, culture and heritage

From Bronze to TBC

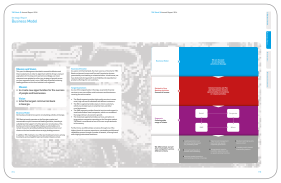
In 2014, TBC Bank presented a unique collection of ancient Georgian openwork bronze buckles, dated VIII-VI centuries BC and I-IV centuries AD. This collection is of special importance for the history of Georgian culture, as it compiles a few of this type of artefacts that are still preserved in the country.

The Georgian public was largely unaware of these historic treasures until TBC Bank's Art Gallery hosted the exhibition *From Bronze to TBC*. This project is just one of the unique ways TBC supports Georgian culture and heritage.

TBC Bank is a leading universal bank in Georgia, offering a broad range of products and services through its extensively developed retail, corporate, SME and micro banking business lines. The Bank successfully completed its IPO and listed GDRs on the LSE on 11 June 2014.

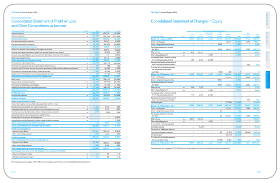
Business Review

Strategic Report



Governance

Financial Statements



Additional Information

TBC Bank standalone statements according to the National Bank of Georgia reporting standards are available on the Bank's Investor Relations website at www.ir.tbcbank.ge

Artarea

In 2014, TBC Bank continued to invest in arts and culture development in Georgia. Artarea is our pioneering initiative and the first TV project focusing solely on cultural events and developments. Artarea went beyond its initial online format in 2014 and started broadcasting on cable. For more on the Bank's cultural projects, see our CSR Report on page 66.

Business Review

Performance Highlights

Financial highlights (in millions GEL)

Total Operating Income
458.3
2013: 381.5
Change +20.2%

Operating Expenses
226.3
2013: 198.6
Change +13.9%

Profit Before Tax
182.9
2013: 139.9
Change +30.7%

Profit for the Period
158.5
2013: 124.3
Change +27.5%

Total Assets
5,423.5
2013: 4,451.1
Change +21.8%

Gross Loans
3,706.3
2013: 2,958.6
Change +25.3%

Customer Deposits
3,322.4
2013: 2,886.9
Change +15.1%

ROAE
18.4%
2013: 18.7%
Change -0.2pp

ROAA
3.3%[a]
2013: 3.1%
Change +0.2pp

Pre-provision ROAE
24.2%
2013: 25.3%
Change -1.1pp

Cost to Income
49.4%
2013: 52.1%
Change -2.7pp

Cost of Risk
1.6%
2013: 1.3%
Change +0.3pp

NPL to Gross Loans
0.5%
2013: 1.1%
Change -0.6pp

Basel 1 CAR
30.4%
2013: 28.6%
Change +1.7pp

Basel 2/3 total CAR
15.0%
2013: 14.4%
Change +0.7pp

Selected operating data

Remote Channel Transactions/ Total Non-cash Transactions	Cash-in Terminals (TBC Pay)	Branches	Employees	ATMs	POS Terminals
82%	2,262	120	5,117	352	4,820
2013: 81%	2013: 2,566	2013: 114	2013: 4,471	2013: 332	2013: 2,779

Credit ratings

FITCH		Moody's	
Long-term IDR	Short-term IDR	Bank Deposits FC	Bank Deposits DC
BB–	B	B1	Ba3

(a) Please find all ratio explanations on page 65.

Business Review

Letter from the Chairman

We are happy to have completed another successful year, delivering against our growth targets. We enhanced our leadership positions in each segment we operate – retail, corporate, SME and micro. Moreover, we continued to place particular emphasis on our shareholders, customers, employees, and community, which we have always viewed as fundamental to our long-term success.

Mamuka Khazaradze
Chairman

Twenty two years ago we started our business with just USD 500 in capital and have grown together with our customers, our shareholders and our team from modest beginnings to a leading company in the region.

We built our Bank with an unwavering dedication to innovation and a high standard of doing business, which was a display of unprecedented boldness amid the break-up of the Soviet Union and the resulting crisis. We were very young and enthusiastic with the ambition to create a business that would change not only our own future but that of many others in Georgia. We decided to start by recruiting very talented and promising young professionals, who laid the foundation for the success of the Bank and their own careers. I am proud to say that we have kept the same strategy to this day.

For me, 2014 was a special year where we achieved another milestone of listing on the London Stock Exchange. I believe this is important not only for our Bank but also for the country and its economy. The London listing creates new opportunities for our continued success and development, while it also reinforces the links between the Georgian economy and international markets.

We are happy to have completed another successful year, delivering against our growth targets. We enhanced our leadership positions in each segment we operate – retail, corporate, SME and micro. Moreover, we continued to place particular emphasis on our shareholders, customers, employees, and community, which we have always viewed as fundamental to our long-term success.

Our Customers

We are proud of the way we do business, which has resulted in long-term relationships with many of our clients. We are honoured to be the reliable financial institution for many of the companies who started as small entrepreneurs in the early 1990s and with our continuous support became leaders in their industries.

I am happy to see that the Bank's Management leads our business with the same passion and dedication today. An ever increasing number of small enterprises supported by our Bank have grown into large companies that contribute greatly to our economy. Each of these companies is a new success story for TBC Bank and for the country.

We have always differentiated ourselves with the highest customer experience. Our innovation in products and service models has helped enhance TBC Bank's image as the customer-oriented institution. I am proud of our award winning multichannel platform that has made banking easier, more accessible and convenient for our retail clients. Recent developments in the micro segment allow us to come closer to the customers in the regions. TBC Bank's unique Business Support Programme provides special value-added services to our SME customers and the wider Georgian business community.

Our Shareholders

We believe that our focus on long-term successful performance is well appreciated by our shareholders and we are best positioned to continuously serve their interest and to facilitate effective discussion and engagement. We outperformed the market in terms of both loan and deposit growth, which further enhanced our overall market position in Georgia. In line with our strategy, the retail and SME segments made a significant contribution to these results. Our growth strategy was supported by our robust capital base reinforced through our IPO and the solid net income for the year. We achieved a record profit of GEL 158.5 million, translating into an ROAE of 18.4%.

In light of this continued strong performance, the Bank's Supervisory Board plans to distribute 25% of the Bank's consolidated net income as dividends.

Our merger with Bank Constanta was successfully completed in January 2015, which will enable us to offer TBC Bank's products in an additional 60 branches. We will also start offering microfinance products through the Bank's branch network and further expand our business in the fast-growing microfinance segment of the market.

Once again, we are excited to step up our support to businesses outside of Tbilisi by making more of our resources and services available in the regions through the former Bank Constanta's network. We plan to focus our efforts on providing new opportunities for growth to businesses throughout Georgia.

Our Team

TBC Bank boasts a diverse and experienced team that steers our Bank through opportunities and challenges every day. We are one of the largest employers in the market. Approximately 90% of our work force is young and passionate, aged between 20 and 39. Our Management has spent an average of over 10 years with TBC. Approximately 70% of our employees and 60% of middle management are women.

I am very proud that we have continued to strengthen our Supervisory Board by welcoming Stefano Marsaglia as the Independent Member in 2014. He has replaced Emile Groot, who resigned at the end of the year. Stefano has extensive experience in the financial services industry, including his recent roles as Executive Chairman of Corporate and Investment Banking at Mediobanca, London, and the Chairman of Global Financial Institutions of the Investment Banking Division at Barclays Bank, London.

When building our management team, we focus on attracting the best talent in the country. 2014 has been important in this regard, as the strength of Management Board was reinforced with the top Georgian talent with outstanding professional and academic background.

George Tkhelidze joined TBC Bank from Barclays Investment Bank as Chief Risk Officer. David Tsiklauri joined the Bank as Co-Head of Corporate Banking from Deutsche Bank and, after the departure of Mariam Megvinetukhutsesi, remains as the Head of Corporate Banking. Nikoloz Kurdiani was appointed Deputy Chief Executive Officer of TBC Bank responsible for micro-finance, joining from the UniCredit Group. We are proud to bring these outstanding Georgian professionals back to the country, strengthening our Management Board, and wish them further success in their new roles.

I would like to take this opportunity to thank Emile, Archil and Mariam for their tremendous contribution to the Bank's development over the past years and wish them every success in their personal and professional endeavours.

Culture of Giving Back

TBC Bank places special emphasis on building the right employee culture and would like to lead by example as a company. To this end, we have created several programmes for and with our employees and I would like to highlight two of them this year.

Our Fund for Large Families responds to the role our team members play as mothers and caregivers in the community. This unique fund provides one-time monetary assistance to employees who welcome their fourth and next child and organises special events and gifts for their families.

Acting in the same vein, we are grateful for the care our employees have shown each other as well. They have started a fund – TBC for TBC – where employees volunteer to donate a portion of their salary each month. In addition to the Bank's own efforts, these resources are used to ease the financial burden for the family members of our employees who may not have appropriate health insurance.

Social Responsibility

Lastly, but importantly, we pride ourselves on being a socially responsible company and a leading supporter of arts and cultural development in particular. In 2014, TBC Bank financed several important new, as well as traditional projects and I would like to highlight some of these below.

TBC Supporting Georgian Art Abroad

TBC Bank financed four distinct efforts to promote and export Georgian art and culture beyond the country's borders. With TBC's support, several Georgian artists have become frequently featured in lots at auctions at Sotheby's. A unique exhibition was hosted by the London Rich Mix Art Space, featuring four Georgian artists. Several young talents from the country were also given an opportunity to showcase art pieces in Cologne, Germany, at an exhibition organised in partnership with DEG. Lastly, with TBC's backing Georgian photographers were able to participate in the prestigious photo contest and exhibition PHOTO OFF in Paris, France.

Business Review

Letter from the Chairman

Continued

Sustaining Historical Heritage
TBC plays an important role in maintaining the country's historical heritage. In 2014 the Bank sponsored an exhibition of unique historical artefacts – a collection of bronze buckles dating as far back as the Eighth Century BC, at its headquarters in Tbilisi. The Bank also financed the reconstruction of a historical heritage site in a mountainous region of Georgia, the Mutso stronghold dating to the late medieval period, which is set to welcome its first visitors in early 2015.

Literary Award SABA and Online Bookstore
TBC continued to support the SABA Literary Awards programme, one of the most respected and anticipated literary events in the country. TBC Bank founded the programme in 2003 with 2014 marking its 12th anniversary ceremony. As of today the Bank has recognised over 110 authors and awarded c. GEL 377,000 in prizes.

SABA online bookstore, the satellite project to support the Awards Programme, has been gaining popularity among the local and expat communities. The bookstore, which introduced the first Georgian e-book app in 2014, promotes Georgian literature beyond the country borders and allows new authors to be discovered and appreciated. Until now, dozens of established and up-and-coming writers have created their own electronic books and sold them using our innovative e-book platform.

These, and many other initiatives, continue in 2015. A full account of our CSR activities is available in our Strategic Report.

Outlook

As Chairman of TBC Bank, I am honoured to report that the Bank does business in its own, very unique way. With our strong delivery on the set performance targets, we are delighted to create value for our customers, shareholders and team members.

I would like to express my gratitude to the Bank's outstanding management team led by our Chief Executive Officer, Vakhtang Butskhrikidze, and to our employees, who have supported TBC on its journey of growth from USD 500 in equity to our current position of market leadership. I would also like to take this opportunity and congratulate Vakhtang on being named CEO of the Year 2014 in Central and Eastern Europe and the CIS by EMEA Finance Magazine.

Mamuka Khazaradze
Chairman

Company History

TBC Bank Milestones

TBC Bank was founded in December 1992 by Mamuka Khazaradze and Badri Japaridze, who currently hold 22% of the Bank's shares. TBC Bank's longstanding relationships with International Financial Institutions (IFIs) began in 1998 when the Bank signed two agreements for credit lines dedicated to SME financing with IFC and DEG. IFC and DEG subsequently became shareholders of TBC Bank in 2000. The EBRD, FMO, JP Morgan and Ashmore acquired shareholdings in the Bank in 2009. These shareholders have been important partners and contributors to the Bank's development and success.

TBC Bank launched its leading retail business line in 2006. In May 2011, we acquired the fastest-growing microfinance bank in Georgia through a successful acquisition of an 80% shareholding in Bank Constanta. The microfinance segment is now one of the key growth drivers for the Bank.

2015
2014
2013
2012
2011
2009
2008
2006
2004
2000
1998
1992

2014
- TBC Bank completes its listing on the Main Market of the London Stock Exchange.
- TBC Bank gains 100% ownership of Bank Constanta, paving the way for the full merger between the two banks.
- TBC Bank acquires EBRD share in TBC Leasing.

2013
- TBC Bank submits its ICAAP report to the NBG.
- TBC Bank launches its SME Business Support Program, with support from IFC and ADB.
- TBC Bank launches its ground-breaking Sensory marketing project, which creates a unique branded customer experience in its branches.

2012
- TBC Bank celebrates five years of market leadership in Retail Deposits with a 35% market share at the end of the year.
- TBC Bank raises GEL 192 million in new financing through various equity and debt transactions, attracting new investors to Georgia and to its portfolio.
- TBC Bank launches a number of key strategic initiatives:
  - Multichannel distribution systems and now globally recognised services: new Internet & Mobile banking (iPhone, iPad, Android, Blackberry applications, PDA mobile banking);
  - 'Lean Banking' project to increase efficiency throughout the distribution network;
  - CRM implementation project with industry-leading Oracle Siebel; and
  - Basel II/III implementation project with support from Ernst & Young.

2011
- TBC Invest establishes a representative office in Israel that acts as an intermediary between potential future clients and the Bank.
- TBC acquires 80% shareholding in Bank Constanta, which specialises in microfinance.

2009
- TBC Bank broadens its shareholder base with EBRD, FMO, JP Morgan and Ashmore becoming shareholders in TBC Bank, and IFC and DEG contributing additional capital.

2008
- TBC acquires 75% shareholding in TBC Kredit (formerly SOA Kredit), a non-banking credit institution in Azerbaijan.

2007
- TBC's total assets exceed USD 1 billion.

2006
- EBRD acquired 10% shareholding in TBC Leasing.
- CITI Bank provides a USD 35 million unsecured loan to TBC Bank. At this time, this is the largest line of credit ever provided by a foreign commercial bank to a Georgian bank.
- TBC Bank launches its retail banking offering, with a retail product development and marketing strategy implemented with support from BBDO (marketing) and SENTEO (consulting).

2004
- Non-banking operations, through TBC Leasing, are launched by the Bank (which later becomes market leader with 61% market share in 2013).

2002
- The Banker Magazine, a Financial Times Group publication, names TBC Bank as "The Bank of the Year 2002 in Georgia," the first such international recognition for the Bank.

2001
- TBC Bank launches its first internet banking service.

2000
- IFC and DEG acquire a combined 20% of TBC's share capital and become the Bank's first IFI shareholders. TBC Bank becomes the first Georgian company to obtain an international rating.

1998
- TBC Bank enters export/import financing operations segment.

1992
- TBC Bank is established with USD 500 initial capital. The Bank is focused on the corporate segment with emphasis on SMEs.

Business Review

Initial Public Offering

In June 2014, TBC Bank completed its LSE listing, which was vital for TBC Bank's long-run sustainable development and a milestone transaction not only for TBC Bank but also for the economy and the country as a whole.

TBC Bank on the London Stock Exchange
TBC Bank promotional image for the IPO.

Transaction Overview

In June 2014, TBC Bank completed its LSE listing, which was vital for TBC Bank's long-term sustainable development and a milestone transaction not only for TBC Bank but also for the economy and the country as a whole.

The transaction raised USD 256 million, by listing 40% of the Bank's shares. The IPO price was USD 13 per GDR, valuing the Bank at USD 640 million.

The deal team consisted of Barclays and UBS as Joint Global Coordinators and Joint Bookrunners, Renaissance Capital as Joint Bookrunner, and Peel Hunt as Co-lead Manager. Baker and McKenzie, Linklaters, DLA Piper and BGI Legal completed the legal team, while BNY Mellon was TBC's depositary bank and Citigate Dewe Rogerson acted as the PR agent. The Bank's audit company, PricewaterhouseCoopers (PwC) maintained its role during the transaction.

TBC Bank IPO took tremendous effort and team work. The Bank and its advisers successfully executed the transaction in a very challenging environment.

Challenging environment: IPO context

TBC Bank IPO happened in an extremely challenging environment. At the beginning of 2014, while TBC Bank was preparing its IPO, the Ukraine crisis entered a new phase when President Yanukovych fled the country on February 22nd, heightening geopolitical uncertainty in the wider region. This had serious effects on regional equity performance.

Many investors drew parallels with the 2008 Georgian invasion and feared that Russia might open a new front in Georgia to further increase its influence in the region, spreading aggression similar to that demonstrated in Ukraine to Georgia as well.

Moreover, many investors believed that Georgia was dependent on the Russian economy. The country has moved rapidly over the last ten years to reform, liberalise and diversify its economy. Georgia has repeatedly been named as one of the top reformers by the IFC and World Bank Doing Business report, as well as one of the easiest places in the world to start and do business. Forbes Magazine and Transparency International have also named Georgia as one of the friendliest tax regimes and one of the most transparent economies in the world, respectively[a]. Georgia's trading and financial links have been greatly reoriented since 2008 with exports to Russia and Ukraine accounting for only 6.5% and 6.6% respectively. However, most investors had been given few opportunities to participate in these developments. Some investors still tended to view the country in the broader CIS region context as a Russia-dependent economy.

(a) The World's #2 Reformer; #8 on Starting a Business; #15 globally on the Ease of Doing Business – according to the World Bank and IFC Doing Business Report 2014.

Finally, the Georgian economy is still small and receives limited international exposure. Many investors were deterred by the challenges of the CIS equity market and by negative news and commentary about the region, so that they did not want to spend more time on learning the essential specifics that would build their trust in Georgia. When the syndicate team banks were conducting investor feedback calls, some of the investors were answering simply that this was not a good time for any IPO from the region.

The task for our team was to convince investors that Georgia was different and was not affected by the Ukrainian developments, ensuring that the difference was clearly explained and that the investors understood and trusted TBC Bank's strong investment story.

It took diligent preparation and persistence in preparing consistent meetings with investors through various marketing activities, such as a non-deal roadshow or pilot fishing, in order to ensure that the appropriate audience was targeted and messages were clearly delivered.

Milestone IPO

TBC Bank IPO was unique for its size and timing.

- **Largest ever IPO from Georgia**
  TBC Bank's IPO marked a milestone for the Georgian economy and the banking sector. The IPO was one of only two bank IPOs from Georgia and, at USD 256 million, is the largest offering by a Georgian company on a stock exchange.

- **Largest ever international off-index IPO from the EMEA region**
  As Georgia is not yet part of the MSCI Emerging Markets or Frontier Markets indices, the TBC Bank GDR could not be included in tracker or index fund portfolios, increasing the need for successful marketing to active investors.

- **Only bank IPO from CEE region[a] in 2014**
  Bank IPOs remain a relative rarity historically due to, arguably, more challenging transaction dynamics. Since 2008, only 13 banks have gone public in Europe (six in 2014) and only five of these were from the European emerging markets.

- **3rd largest CEE IPO in 2014[b]**
  One of only 9 CEE IPOs[c] in 2014, which saw the lowest level of CEE IPO activity since 2002 (by USD million raised)

- **One of only 4 GDR issues on the London Stock Exchange in 2014**

(a) When referring to CEE, we include CIS countries and Russia
(b) Data according to Dealogic
(c) We include here all company IPOs, not only bank IPOs (as mentioned in the bullet point immediately preceding)

Unique Equity Story

The Bank's IPO story was clearly identified and communicated to the investors, which was an important part of the success of our Offering. TBC Bank IPO story was based on the benefits and opportunities of investing in Georgia, the Georgian banking sector and TBC Bank. These benefits are described in chapters *Operational and Financial Review and Key Strengths*.

Successful IPO strategy

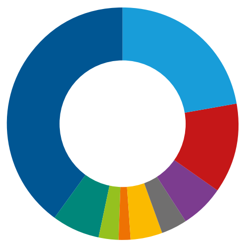
The Bank understood that the IPO windows are becoming shorter and shorter due to the challenging economic environment and it is almost impossible to predict when the appropriate window will become available to launch an IPO.

Therefore, rather than forecasting the next possible opportunity, TBC implemented important initiatives to prepare and improve all aspects of the Bank to meet best practice standards and started early engagement and education of investors, so that it was ready to take advantage of the first suitable window for listing. At the time of the IPO, TBC had all the necessary structures and practices in place to give confidence to new investors in its corporate governance.

TBC Bank Shareholding Structure

Before the IPO

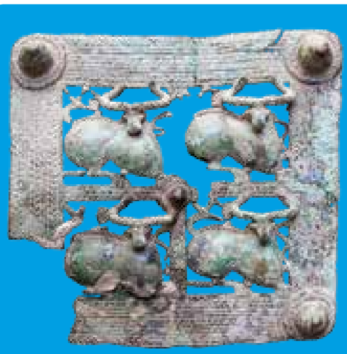
After the IPO



Business Review

TBC at a Glance

We create new opportunities for the success of people and businesses.



This openwork bronze buckle was discovered in a village church in 1963. The frame ornaments are created with skilled and precise craftsmanship, while the buckle is distinguished with its four-part composition each containing a single ox figure. This type of design is rare in the wider buckle collection.

TBC Bank is a leading universal banking group in Georgia with an unmatched share of retail deposits at 33.7%[a], and a number two position in loans and deposits with total market shares of 27.7% and 28.4%, respectively.

We service over 1.2 million clients through a diversified multichannel platform that comprises 120 branches of TBC Bank and former Bank Constanta, one of the largest networks of ATMs and POS terminals in Georgia, global award-winning internet banking, market-leading mobile, iPad and iPhone banking, a call centre and TBC Pay terminals and kiosks.

We employ over 5,000 people[b] across our operations, more than half of whom have been with TBC for four or more years.

Our Multichannel Distribution Platform

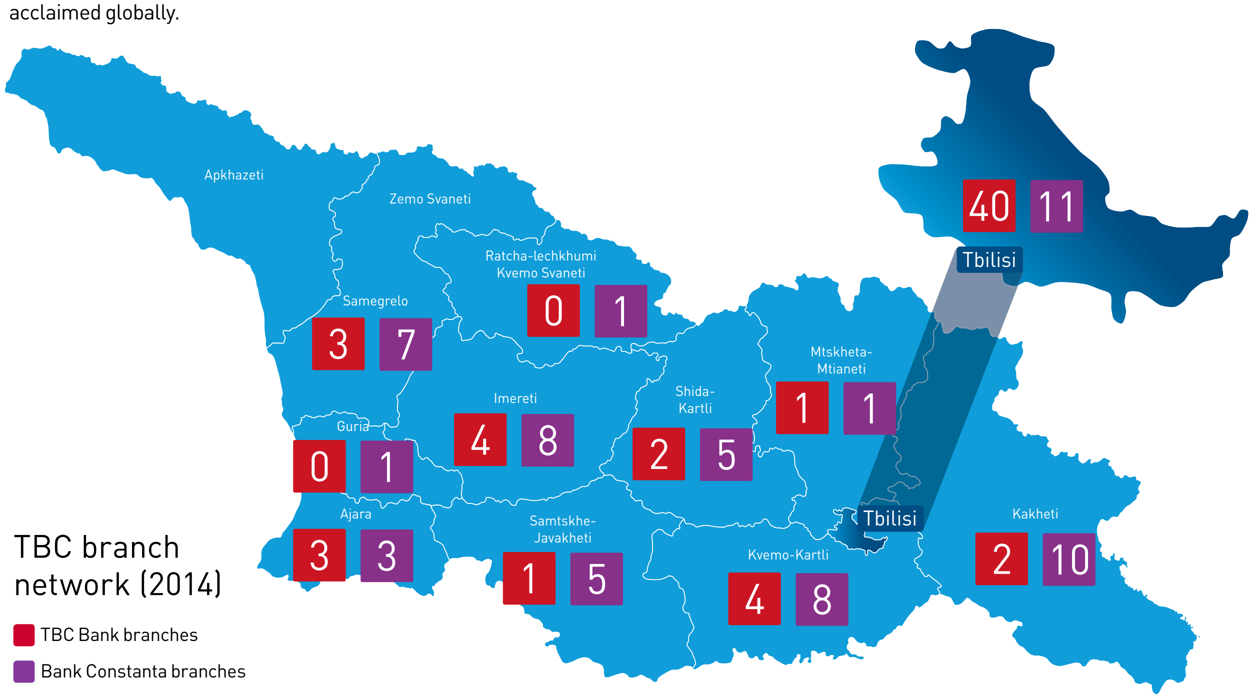
TBC Bank's globally recognised multichannel distribution platform complements our full service model perfectly. While our branches are carefully designed with a primary focus on customer satisfaction, our leading multichannel distribution platform allows us to offload routine transactions from branches to e-channels. As a result, TBC has achieved the market-leading portfolio of gross loans per branch of GEL 30 million[c].

Over the past year, our multichannel capabilities have been recognised as best in the country and in the wider region, as well as being acclaimed globally.

Customer Experience

TBC Bank prides itself on the quality of customer service and experience. According to internal and external research, TBC Bank maintained market leading positions in customer experience in 2014. A "Mystery Shopping" study conducted by IPM[d] named TBC Bank as the friendliest provider of banking services in Georgia.

(a) All market share data is quoted according to the figures published by the NBG and include TBC Bank and Constanta.
(b) Including employees of all TBC Bank subsidiaries.
(c) Gross loan portfolio according to NBG accounting standards for comparison purposes. TBC Bank portfolio includes Bank Constanta.
(d) IPM is a leading market research company in Georgia with 15 years of experience of the market and 12 years within the financial services industry. IPM's Mystery Shopping survey evaluates the service quality of the Bank's branch and call centre employees according to approximately 80 different parameters, each one earning one point for the assessed employee when fulfilled. Parameters cover such important qualitative and quantitative criteria as professionalism, meeting/closing skills, responsiveness, perceived service quality, etc. The final score is a percentage total of scores achieved by all employees out of the maximum 100%.



TBC Banking Franchise: Overview

TBC Bank Brand

TBC Bank has one of the best-known and most trusted brands in Georgia. This is largely due to our high quality customer experience, strong reputation, long-standing relationships with customers, traditional focus on social responsibility, and targeted marketing campaigns.

Over the years, we have received a number of prestigious industry awards, including being named as "Best Bank in Georgia" seven times by **Global Finance** magazine, seven times by **The Banker**, four times by **EMEA Finance** and three times by **Euromoney**.

Products and Services

TBC Bank offers a wide range of banking products and services to its retail, corporate, SME and micro clients with the majority of our business concentrated in Georgia, which accounted for 98.3% of TBC's total assets and 97.6% of its net income as at and for the year ended 31 December 2014.

Recent Awards

1.

4.

6.

12.

2.

5.

7.

Corporate and Social Responsibility Award
Central and Eastern Europe and CIS

13.

3.

Vakhtang Butskhrikidze, CEO of the Year 2014 /
Central and Eastern Europe and CIS

8.

10.

9.

11.

1. Bank of the Year 2014: *The Banker*
2. Best Private Bank in Georgia 2014: *The Banker and PWM Magazine*
4. Top 15 Global Trade Finance Deals: *Trade and Forfaiting Review*
5. Best Bank in Georgia 2014: *Euromoney*
6. Most Active Issuing Bank in Georgia in 2013: *EBRD Trade Finance Programme*
8. Best Foreign Exchange Provider in Georgia 2015: *Global Finance*
9. Best Consumer and Corporate Internet Bank in Georgia 2014: *Global Finance*
   Best Integrated Consumer and Corporate Bank Site in Central & Eastern Europe 2014: *Global Finance*
10. Best Bank in Georgia 2015: *Global Finance*
11. Best Trade Finance Bank 2015: *Global Finance*
12. Most Active Issuing Bank in Georgia 2014: *Asian Development Bank Trade Finance Programme*
13. Best Bank in Georgia 2013: *EMEA Finance*

Business Review

TBC at a Glance

Continued

Retail banking

TBC Bank is the market leader in retail loans and retail deposits as at 31 December 2014. The retail segment represents 59.5% of the total deposit portfolio and 45.0% of the total loan portfolio, making it the Group's largest segment in terms of both deposits and loans. We offer a full range of products to our retail customers, including current and saving accounts, term deposits, consumer, instant, instalment and mortgage loans, credit cards and overdrafts. We serve more than one million retail customers through our extensive multichannel distribution network.

By 31 December 2014, the Group's retail loan portfolio reached GEL 1,666.9 million with the market share for individuals at 29.7%. At the same time, our market share in deposits of individuals stood at 33.7%.

(a) All individual customers of the Group as well as customers that have been granted gold-pawn loans.

Customer classification[a]
All individual customers

Customer loans
(2014YE, % of total, gross)

45.0 — GEL milllion **1,667**

Customer deposits
(2014YE, % of total)

59.5 — GEL million **1,977**

Customers
'000s

1,060

Corporate banking

Corporate Banking is a traditionally strong area of the Bank representing 33.2% of TBC's total loan portfolio and 25.1% of total deposits portfolio. We serve more than 1,400 corporate clients in Georgia, offering a wide range of products including balance sheet finance, trade finance, asset finance, project finance, working capital and syndicated loans.

(b) Business customers which have annual revenue of GEL 8.0 million or more or have been granted a loan in an amount equivalent to USD 1.5 million or more. Some other significant legal entity customers may also be assigned the status of being a corporate customer, on a discretionary basis; for example, if they are regarded by the Group as having strong growth potential.

Customer classification[b]
Legal entity customers

Customer loans
(2014YE, % of total, gross)

33.2 — GEL milllion **1,232**

Customer deposits
(2014YE, % of total)

25.1 — GEL million **833**

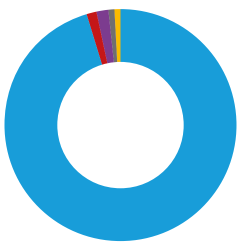
Customers
'000s

1.5

Subsidiaries

In addition to its core banking business that TBC conducts within its retail, corporate, SME and micro segments through TBC Bank, Bank Constanta and TBC Kredit, TBC conducts supplementary operations through its other subsidiaries. These operations represented 1.9% of our total assets and 1.7% of our consolidated net income for the year ended 31 December 2014. For a more detailed overview of our subsidiaries, please see Operating and Financial Overview on page 28.

Group shares in total assets



- TBC Bank & Constanta **96.4%**
- TBC Leasing **1.3%**
- TBC Kredit **1.7%**
- TBC Invest **<0.1%**
- Other **0.6%**

Shareholders

Since the Bank's IPO on the London Stock Exchange, 40% of TBC Bank shares are publicly traded. Our International Financial Institution (IFI) shareholders include International Finance Corporation (IFC), Deutsche Investitions und Entwicklungsgesellschaft mbH (DEG), the European Bank for Reconstruction and Development (EBRD) and Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO), with a combined share capital of 26.7%. Other international institutional investors, J.P. Morgan Chase Bank, N.A., London Branch ("JPMorgan") and Ashmore Cayman SPC No. 2 Ltd. ("Ashmore"), in aggregate hold 4.3% of the Bank's shares. The two founding shareholders jointly hold 22.4% of the Bank's share capital, while the remaining 6.7% is owned by management and other minority shareholders.

Ratings

TBC Bank is rated by Fitch Rating Agency and Moody's Investor Services. The Bank's current ratings are BB- (Long Term IDR)/ B (Short Term IDR) assigned by Fitch and B1 (FC)/ Ba3 (LC) assigned by Moody's.

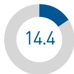
SME banking

SME banking accounted for 14.4% and 15.3% of TBC's total loans and total deposits portfolios, respectively. TBC offers a diverse range of products and services to its SME segment customers, including trade finance, project finance, asset finance and working capital loans. We serve approximately 56,000 clients.

As at 31 December 2014, we held the second largest market share for legal entity loans and deposits of 25.8% and 23.0%, respectively.

Customer classification[c]
Legal entity customers

Customer loans
(2014YE, % of total, gross)



GEL milllion
534

Customer deposits
(2014YE, % of total)

GEL milllion
508

Customers
'000s
56

(c) Business customers that are not included either in the corporate or micro segments

Micro banking
(Bank Constanta)

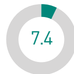
TBC Bank completed the merger with Bank Constanta in January 2015. The former Bank Constanta operations are now presented as the microfinance operations of TBC Bank. Following the integration of Bank Constanta's business within TBC, the identical range of products and services is now available throughout the whole network of TBC and former Bank Constanta branches.

The micro banking segment is the smallest but fastest growing segment of the Group, accounting for 7.4% and 0.1% of total loans and total deposits, respectively. Total loans to the micro segment increased by 36% during 2014, while micro customer deposits increased by 9.9% YoY. This segment offers various types of loan and deposit products tailored to client needs. As at 31 December 2014, we served approximately 36,000 micro banking customers in Georgia.

In January 2015, TBC Bank also further strengthened its leadership on the market by acquiring ProCredit Bank's microfinance portfolio. At the time of the transaction, gross loans in this portfolio amounted to GEL 38.4 million.

Customer classification[d]
All micro customers

Customer loans
(2014YE, % of total, gross)



GEL milllion
274

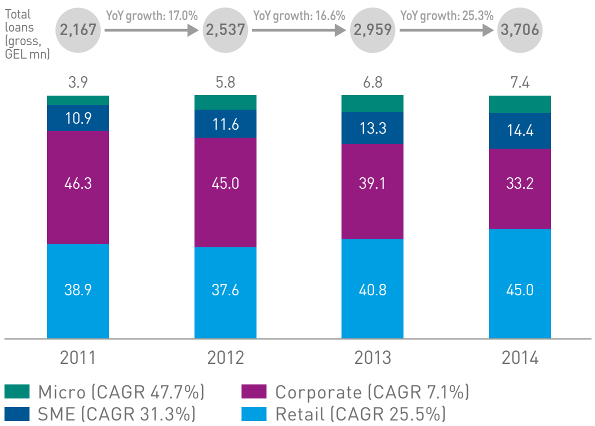
Customer deposits
(2014YE, % of total)

GEL milllion
5

Customers
'000s
36

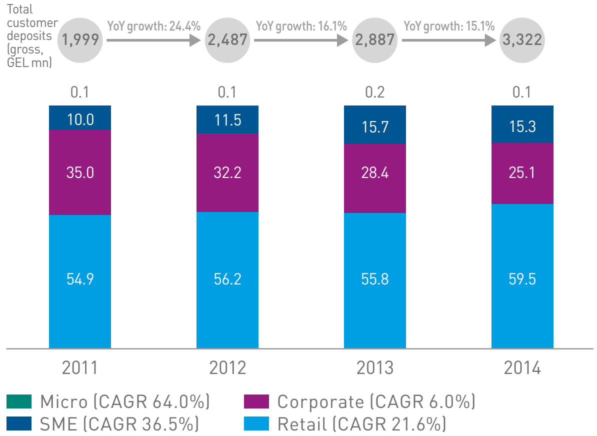
(d) All business customers of Bank Constanta, that have been granted loans by and/or have deposits with Bank Constanta, the amount of which in neither case exceeds USD 150 thousand.

Development of loans by segment
(gross, % of total)



Source: Consolidated IFRS figures; CAGR figures for 2011–31 December 2014

Customer deposits by segment
(% of total)



Source: Consolidated IFRS figures; CAGR figures for 2011–31 December 2014

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Strategic Report

Letter from the Chief Executive Officer

2014 has been a year of progress and achievement for TBC Bank. We secured a listing on the London Stock Exchange, resulting in the largest ever IPO from Georgia and the largest ever off-index IPO from the EMEA region, an important milestone for both TBC Bank and the country's economy.

Vakhtang Butskhrikidze
Chief Executive Officer

We closed the year with a record profit, having already delivered on most of our mid-term targets. By year-end, our loan book grew by 25.3% p.a., in line with our target of circa 20% p.a. growth. We maintained our strong profitability with net income for the year at GEL 158.5 million, up 27.5% YoY, and an 18.4% return on average equity (ROAE). At the same time, we retained a robust capital position with a Basel II/III Tier I capital ratio of 12.4%. The Bank's cost to income ratio decreased to 49% in 2014, compared to 52% in 2013. Without one-off charges related to the integration of Bank Constanta and the IPO – the ratio was 47%.

Through rigorous implementation of our strategy based on a balanced approach to growth and profitability, our focus remains on delivering continued returns for our shareholders. Furthermore, we expect significant benefits from the merger with Bank Constanta, which was completed in January 2015. The merger will enable us to offer TBC Bank's products in an additional 60 branches and to further expand our business in the fast-growing microfinance segment of the market.

In 2014 we continued to operate in a supportive economic environment. Real GDP grew by 4.7%, slightly below the projected 5.0%, primarily due to the generally weak macro environment in the region as well as the slowdown in the Eurozone economy. While the Georgian Lari depreciated by 7.3% against the US Dollar during 2014, it appreciated against most of Georgia's trade-partners' currencies; that is, by 5.3% against the Euro, 1.3% against Turkish Lira, 38.0% against the Ruble, and 7.7% against the Armenian Dram.

Despite ongoing geopolitical unrest and economic slowdown, the Georgian economy has remained one of the top performers in the region. The high diversification of the economy, decreasing oil prices, and the implementation of the EU Association Agreement (AA), including the Deep and Comprehensive Free Trade Area (DCFTA) agreement, further strengthen the country's capacity for resilient development in the coming years. In this environment, the Georgian banking sector delivered robust growth with total loans increasing by 23.7% YoY and 12.0% QoQ.

We continued to outperform the market and delivered strong growth across our portfolios. Driving the 25.3% increase in our total portfolio, our retail and SME business lines grew at the fastest pace achieving 45% and 14% shares of total loan book, up from 41% and 13% YoY, respectively.

As a result, we became the largest retail bank in the country in terms of total retail loans with a 29.7% market share and continued to maintain our long-term leadership in retail deposits with a 33.7% market share. We continued to maintain the second highest market share in total assets and total loans at 26.3% and 27.7%, respectively.

Our Net Interest Margin (NIM) was 8.5% (8.4% excluding one-off interest income) in 2014, compared to 8.4% in 2013. Total non-interest income reached GEL 119.7 million in 2014, up 21.1% YoY. Our cost of risk on loans was 1.6% in 2014, in line with our guidance despite the above-mentioned currency devaluation. Importantly, we continue to have one of the lowest levels of Non-Performing Loans (NPLs) at 0.5%, and comfortable reserve coverage for NPLs plus restructured loans at 109%.

Our strong capital base, reinforced through our IPO and solid net income for the year, further supported our growth strategy. The Bank's total capital adequacy ratio (CAR) per Basel I stood at 30.4%, and the total CAR per recently implemented Basel II/III regulation stood at 15.0%, against the minimum requirement of 10.5% (or 13.5% including the capital buffer).

In 2014, we reached significant milestones in our multichannel banking. TBC Bank maintained the leading customer base in internet and mobile banking with approximately 155,000 and 62,000 active users, respectively. The share of remote channels within total transactions reached 82%, compared to just over 80% in 2013, while internet and mobile banking transactions represented 44% of total transactions transferable to remote channels during 2014, compared to over 30% achieved in 2013. Moreover, our internet banking continues to receive international recognition for the third consecutive year, with Global Finance Magazine awarding us the title of "Best Internet Bank in Georgia", as well as the "Best Integrated Consumer Bank Site in CEE" and "The Best Integrated Corporate Bank Site in CEE".

Our Management Board was further strengthened with three new members who have joined us from some of the world's leading financial institutions. TBC Bank's new Chief Risk Office, George Tkhelidze joined the Bank from Barclays, where he held the position of Vice President in the Financial Institutions Group (FIG) for EMEA. David Tsiklauri is the new Deputy CEO, in charge of Corporate Banking, having had six years of experience at Deutsche Bank, most recently as Vice President for Capital Markets and Treasury Solutions. Nikoloz Kurdiani joined TBC as the new Deputy CEO in charge of Micro Banking, after five years with Unicredit Group in Austria and Kazakhstan. On behalf of the Management Board, I would like to congratulate our new members on their appointments and wish them tremendous success with TBC Bank.

I would also like to take this opportunity to thank Mariam Megvinetukhutsesi, the former Deputy CEO in charge of Corporate Banking, who was with TBC Bank for 8 years. Her contribution to the Bank has been immense. Additionally, I would like to thank Archil Mamatelashvili who worked with us during a very important period. I wish Mariam and Archil the best with all their future endeavours.

Outlook

The depreciation of the Georgian Lari and regional developments are expected to result in a temporary slowing of the economy's growth rate in 2015. We believe our asset quality will remain robust under these conditions, due to our continuing rigorous approach to risk management and the strength of our existing capital buffers.

We also expect currency depreciation to have some positive effect in the medium to long-term by helping the economy maintain its competitiveness in the region. Looking ahead, with low oil prices, inflation under target, and the resilient nature of the fundamentals of the Georgian economy, we believe that growth rates will soon return to the previous levels.

I would like to reiterate our medium-term targets set out below:

- Despite an expected temporary slowdown in the short term, our medium-term target for loan growth remains at 20%;
- Return on equity remains above 18%+;
- Our cost to income ratio (net of one-off costs) is on a decreasing trend towards the 45% target
- We have revised our Capital Adequacy ratio to better utilise our capital and to partially reflect the reduction in the respective requirements per NBG's current regulation. We intend to maintain a solid capital buffer with a targeted 10.5% equity Tier I capital ratio;
- We reiterate our target dividend payout ratio of 25%.

We believe that the actions we have taken ensure that the Bank is well positioned to sustain its successful performance into the long-term. We look forward to updating the market on our continued achievements in the future.

Vakhtang Butskhrikidze
Chief Executive Officer

Record High Profit with Strong NIM

GEL million
158.5

NIM
8.5%

Highest number of Internet and Mobile Banking Customers

155,000 and **62,000**

Strong Capital Buffers

Total CAR Basel II/III
15.0%

Strategic Report

Business Model

Mission and Vision

This year the Management decided to amend the Mission and Vision statements in order to align them with the Group's revised aspirations for the long-term period. Accordingly, our vision statement was updated to reflect our strategy of growth across our four segments (retail, micro, SME and corporate) achieving leading positions on the local market in all segments.

Mission

- to create new opportunities for the success of people and businesses.

Vision

- to be the largest commercial bank in Georgia.

Business Model

Our business model is focused on core banking activities in Georgia.

TBC Bank primarily operates on the Georgian market and concentrates on pure commercial banking activities, investing in subsidiaries that support or further grow our core business. This business structure clearly differentiates us and enables us to remain focused on providing traditional financial services to our clients on the local market where we enjoy leading presence.

In addition, TBC maintains one of the best funding structures among local banks and a straightforward and resilient balance sheet.

Sources of Income

As a pure commercial bank, the main sources of income for TBC Bank are Interest Income and Fee and Commission Income generated by core banking or related activities. In both areas, we have delivered strong growth in profitability and expanded our products offerings for our customers.

Target Customers

As one of the largest banks in Georgia, we provide financial services to over one million retail customers and businesses covering the entire market.

- The Retail segment provides high quality services to mass retail, high net worth individuals and affluent customers.
- The Micro segment provides loans to micro customers, which also include loans to small farmers and other rural businesses.
- The SME segment provides financial services and support to small and medium sized companies, which are considered the largest drivers of economic growth.
- The Corporate segment provides services and advice to large mature companies operating on the Georgian market. TBC Bank is considered as one of the core corporate banks in the country.

Furthermore, we differentiate ourselves through one of the highest levels of customer experience, outstanding multichannel capabilities proven through a number of awards, a strong brand and a highly professional workforce.

Business Model

We are focused on core banking activities in Georgia

Related to Core Banking Activities
Sources of Income

Interest Income and Fee and Commission Income generated by core banking or related activities

Segments
Covering wide range of clients

Retail | Corporate | SME | Micro

We differentiate ourself from competitors across different criteria

1. Leading positions in an attractive market poised for profitable growth
2. Strong Track Record of Growth and Profitability
3. Business model focused on core banking activities in Georgia
4. Experienced management team and high quality corporate governance
5. Strong brand, superior customer experience and an award-winning franchise
6. Resilient and high quality balance sheet
7. A leading multi-channel distribution platform

Strategic Report

Strategy

In 2013, TBC Bank set ambitious goals for the year 2014 and managed to achieve most of its strategic objectives. During 2014, TBC increased its market shares, delivering strong profitability and listing its GDRs on the London Stock Exchange.

TBC Bank's overall strategy for the next years is to enhance the Bank's position as a leading Georgian universal financial group by becoming the no. 1 commercial bank in the country via continuous growth in each of the four segments. TBC Bank is Georgia's second largest bank by assets, no. 1 in retail deposits and retail loans, and has a new, clearly defined strategy to become the leading pure commercial bank in the country in the medium-term period.

We will continue strengthening our competitive advantages of a strong brand, outstanding customer experience, best regional multichannel capabilities, while we further increase our sales through fully utilising our CRM platform, unique for Georgian market.

Grow Across all the Segments

We will continue delivering strong growth and profitability results to become no.1 commercial bank in Georgia across all four segments. For this purpose, each segment will have a separate strategy on delivering ambitious growth targets for the coming years. We aim to maintain the leading market position in Retail, SME and Micro segments and concentrate on growing our Corporate business further.

In order to achieve this, we will leverage our strengths across all key areas including innovative remote channels and CRM platform, and an experienced management team, as well as absorb synergies from the Constanta merger.

Further Increase Fee and Commission Income from Core Banking Products

As financial institutions are facing shrinking net interest margins on the market, TBC Bank continues focusing on increasing non-interest income. Currently, TBC Bank is concentrating on traditional sources of non-interest income including card operation, guarantees, settlement transactions, income from currency exchange and others. Furthermore, we also consider new opportunities to generate additional income, including new products and services that are in line with our business model of sustaining core banking operations. In order to achieve this, each segment includes non-interest income generating initiatives in their strategic plan.

Further Develop Award-winning Multichannel Distribution Platform

Innovative multichannel capabilities are considered as one of the main competitive advantages of the Bank. Our leadership in this area has been proven through multiple awards, strong offloading results and a high percentage of transactions completed through remote channels. Strength in this area has also largely contributed to the Bank's achievement of becoming the largest retail bank in the country.
In order to further leverage this competitive advantage, we plan to continue focusing on the development of the Bank's multichannel capabilities including internet and mobile banking, call centre, ATMs, TBC Pay and cash-in terminals.

Continue Strengthening Superior Customer Experience

We continue focusing on our other core competitive advantage of superior customer experience, which we sustained throughout 2014. This means further development of various customer service related factors. This strategic direction is important for the realisation of the Group's overall strategic objective to be the largest bank in Georgia.

In order to take it to the next level, the Bank hired Peppers & Rogers Group, a consultancy that will develop a measurement framework, targets and plan to further improve customer experience.

By providing the best customer experience on the market, we aim to retain and further solidify our position in Retail, Micro and SME segments and to become the largest bank for large corporate businesses. Apart from maintaining high customer experience levels in the retail business, in 2015 we will also work on improving the customer experience in Corporate, SME, and Constanta branches in order to ensure that the merger does not have a negative effect on the overall customer experience levels. Furthermore, we believe that in the current market, provision of superior customer experience is a key differentiating factor for TBC among other banks.

Synergies from the merger with the Bank Constanta

Bank Constanta operations were merged with those of TBC Bank on 20 January 2015. We are in the process of achieving synergies by integrating main back office functions such as IT, HR, finance and others. This initiative will allow the Bank to improve its operational efficiency through optimisation of costs and back office processes. After completing the integration of Bank Constanta's business within TBC, the identical range of products and services will be available throughout the whole network of TBC and former Bank Constanta branches. Furthermore, all Bank Constanta branches will be rebranded as "TBC Bank Constanta" within several months of the merger.

TBC Bank Strategy Status for 2014

TBC Bank delivered against most of its medium-term targets during 2014. These are discussed in greater detail on the right.

TBC Strategy Status for 2014

TBC Bank delivered against most of its medium-term targets during 2014. These are discussed in greater detail below:

Financial Performance Targets:

TBC Bank is in line with its medium-term financial performance aspirations. The Bank achieved ROAE of 18.4% in 2014 (against the medium-term target of +18%); cost-to income continued to decrease and, excluding the one-off IPO and Constanta legal case expenses, reached 47.0% (against the medium-term target of <45%). In terms of the loan book growth, the Bank delivered the targeted 20% p.a. plus growth with 25.3% growth as at YE 2014.

Competitive Strength:

The Bank continued differentiating itself through strong brand, high levels of customer experience and outstanding multichannel capabilities.

Capital Raising:

In June 2014, TBC Bank completed the largest Georgian IPO and the largest off-index IPO of the EMEA region through listing GDRs on the main market on the London Stock Exchange. The Bank raised USD 256 million (USD 100 million primary proceeds), valuing the company at USD 640 million.

Segment aspirations:

TBC Bank delivered strong growth and increased its market share in Retail, SME and Micro segments. In 2014, TBC Bank became the largest retail bank in terms of both loans and deposit in Georgia. In line with the strategy, the Bank also maintained its position as the core bank for large corporate businesses.

Medium-Term Targets

	Actual 2014	Mid-term targets
Loan book growth (gross)	25.3%	c.20% p.a.
ROE	18.4%	≥ 18%
Cost income ratio	49.4%/ 47.0%	< 45%
Equity Tier I capital ratio (Basel II/III)	12.4%	c.10.5%
Dividend payout ratio	25.0%[a]	25%

(a) Subject to the AGM approval.

Strategic Report

Key Strengths

TBC Bank is one of the leading Georgian banks focused on all key areas of commercial banking in the country, with small international footprint in Azerbaijan and Israel. It is a market leader in the Retail, SME, Micro and Leasing segments, and the second largest bank in the Corporate segment.

The Management recognises the Bank's competitive advantages by analysing its position. In 2014, the following strengths were identified:

Leading Positions in an Attractive Market Poised for Profitable Growth

TBC Bank has a Total Assets market share of 26% and is one of the two largest banks in Georgia (the two largest banks in the country account for 59% of Total Assets market share). As of 31 December 2014, the Bank held 27.7% and 28.4% market share in the total banking loans and deposits, respectively, which translate into a total loans portfolio of GEL 3,706 million and the total deposits portfolio of GEL 3,322 million[a].

Strong Track Record of Growth and Profitability

TBC has shown another year of strong performance and has benefited from the country's continued growth. In 2014, TBC became the largest retail bank in the country and defined a new strategy to be the leading pure commercial bank in the country in the medium-term period.

TBC Bank's track record of growth is strong with the loan book increasing 17% in 2012, 17% in 2013 and 25% in 2014, finishing the year with a 27.7% market share in total loans. The Bank also showed strong performance in deposits, where its customer deposits grew by 24% in 2012, 16% in 2013 and 15% in 2014, translating into the market share in total deposits of 28.4% as at YE 2014. In addition, despite the pressure on margins in the sector, the Bank maintained a strong net interest margin of 8.5% in 2014, compared to 8.4% in 2013 and 7.7% in 2012.

Business Model Focused on Core Banking Activities in Georgia

TBC Bank primarily operates on the Georgian market and concentrates on pure commercial banking activities, investing in subsidiaries that support or further grow our core business. This business structure clearly differentiates and enables us to remain focused on providing traditional financial services to our clients in the local market where we enjoy leading presence.

Strong Brand, Superior Customer Experience and an Award-winning Franchise

Currently, TBC is known as a strong brand with a highly positive perception on the local market. This is largely due to high quality customer experience, strong reputation, long-standing relationships with customers, traditional focus on social responsibility, and targeted marketing campaigns. This perception is supported by the amount of internal and external research that shows the Group's outstanding performance on the market in terms of NPS scores and customer satisfaction indices achieved.

Additionally, based on the latest TNS research on brand awareness conducted in October 2013, TBC was the "Top of Mind" Bank for 26% of all respondents. A "mystery shopping" study conducted in 2014 by IPM showed that the Bank is one of the friendliest provider of banking services on the market (95.7% for TBC). In recent years the bank has received several awards, including "Best Bank in Georgia" seven times by the Global Finance and The Banker magazines, four times by EMEA Finance and three times by Euromoney.

(a) Volumes according to IFRS consolidated statements; market shares according to NBG.

The Leading Multi-channel Distribution Platform

One of TBC Bank's main competitive advantages is the advanced multi-channel distribution platform, that includes branches, internet banking, ATM network, POS/cash in terminals, call centre, and mobile banking. Our leadership in this area has been proven through multiple awards TBC Bank has won over consecutive years for corporate and consumer internet banking in Georgia, Central & Eastern Europe and even globally; strong offloading results and a high percentage of transactions completed through remote channels. In 2014 from Global Finance magazine awarded the Bank Best Consumer & Corporate Internet Bank in Georgia and Best Integrated Consumer & Corporate Bank Site in Central & Eastern Europe. Strength in this area also largely contributed to the Bank's achievement of becoming the leader in retail banking. As of 31 December 2014, over 80% of the Bank's total transactions were conducted through remote channels. TBC Bank also significantly invests in its branch network and branch appearance by using scent and audio marketing designed to appeal emotionally to customers and a digital signage project to improve advertising effectiveness in branches.

Resilient and High Quality Balance Sheet

Deposits are the main source of funding for the Bank, accounting for 75.4% of total funding as a percentage of total liabilities and 61.3% as a percentage of liabilities and capital as of 31 December 2014. As of the same date, the Bank's loan to deposits ratio was 111.6%, of which retail deposits contributed 59.5% within total deposits.

TBC has a well-diversified loan portfolio split across its segments, with retail, corporate, SME and micro loans accounting for 45.0%, 33.2%, 14.4% and 7.4% of total gross loans, respectively. The Bank operates across all regions through its branch network (including Constanta Branches) and major economic and industry sectors in Georgia.

In 2013, TBC Bank's NPLs plus restructured loans ratio increased to 4.8% from 4.5% in 2012. As of 31 December 2014, the same indicator stood at 3.7%. NPL plus restructured loans coverage ratio was at 109.4% at the end of 2014, compared to 110.6% as of YE 2013 and 145.1% as of YE 2012.

Starting from June 2014, the NBG introduced Basel II/III regulation. Implementation of the new regulations is gradual: commercial banks had to comply with minimum capital adequacy requirements by June 2014 and full compliance is required by 2017. As of 31 December 2014, the Bank's Basel II/III tier 1 and total capital adequacy ratios (CAR) were 12.4% and 15%, compared to 13.4% and 16.7% as at 30 June 2014, respectively.

Experienced Management Team and High Quality Corporate Governance

TBC has an experienced management team with international professional experience at major financial institutions and a proven track record of leading the Bank's operations. Due to historical IFI shareholder presence in the Bank, we have always been differentiated with strong corporate governance, which was further improved during Basel II/III implementation and IPO realisation of the Bank.

This openwork bronze buckle was discovered in 1985 in ancient graves unearthed during road works in Western Georgia. The artistic value of the buckle is enhanced with the sophisticated, smoothly rendered central figure that harmonically intertwines with undulating ornaments that surround it and with the rest of the composition.

Strategic Report

Operating Environment and Market Overview

Georgia has a fast growing and investor-friendly economy, strategically located at a trading gateway between Europe and Asia.

Banking in Georgia

One of the most transparent countries in the world.

The world's
#2
reformer

#4
friendliest tax regime globally

#8
on starting a business

#15
globally on the ease of doing business

TBC continues to operate in a diversified and underpenetrated market positioned for sustained solid growth. In 2014, Georgian GDP grew by 4.8%, which despite being slightly below the forecasted 5%, delivered one of the strongest growth rates in the CIS and Europe.

The country has a well-diversified sector base, represented by a GDP structure composed of 23% industry, 17% trade, 7% construction, 11% transport and communications, 9% agriculture and fishing, 10% public administration, 6% health and social work, and the remaining 17% distributed among other sectors.

The success of Georgian political and economic reforms was recognised by a number of international rankings. Georgia was named the World's no. 2 Reformer according to the World Bank & IFC Doing Business Report 2014 and no. 15 globally for the Ease of Doing Business (Doing Business Report November 2014).

EU Association Agreement

A milestone event for the country occurred when Georgia and the EU signed an Association Agreement on 27 June 2014, which included provisions on establishing a Deep and Comprehensive Free Trade Area (DCFTA). This Agreement clearly indicates Georgia's aspiration to become an EU member and is of prime strategic importance for the country as it will improve the political and economic relationship with the Eurozone and will help to integrate Georgia into its internal market.

DCFTA offers free movement of goods, services and capital within the EU, as well as improved trade and investment opportunities, with custom duties removed on most industrial and agricultural goods, and assistance in trade-related reforms with the aim to contribute to economic growth and to better integrate the Georgian economy with world markets.

Oil and Gas

One of the key competitive advantages of Georgia is its role as a transit hub, allowing for oil and gas produced in the Caspian Sea to reach Europe without going through Russia. The Baku–Tbilisi–Ceyhan pipeline completed in 2005 has contributed to the energy security of Eurasia by transiting 1.2 million barrels per day from Baku, the capital of Azerbaijan to Ceyhan, a port in Turkey, via Tbilisi.

Furthermore, British Petroleum (BP) has announced its plans to build BP Shah Deniz Stage 2, a project that will increase gas production in the Caspian Sea by further 16 billion cubic meters per year (BCMA). A capital investment of approximately USD 28 billion will be required to produce the gas and transport it to the Georgia-Turkey border through the existing South Caucasus Pipeline that will also require further expansion. The government expects that the project will start in 2015 and, according to BP, will result in additional USD 2 billion FDI, creating around 2000 local jobs during the three-year period until it is completed.

Hydropower

Georgia is one of the leading countries in terms of hydro potential per capita, while the country's neighbours demonstrate excess demand or experience expensive power generation, opening up new export opportunities. According to the Georgian Ministry of Energy,thirteen projects have already been started with a total capacity of 523 MW and there are more in the planning stage. In addition to the existing transmission lines between Georgia and Russia, a line between Georgia and Turkey was recently built, creating an additional export capacity of 1,000 MW per year. Currently only 18% of total hydro potential is utilised. The sector represents good opportunities for FDI and has a positive long-term effect on the current account deficit. In 2013-2014 the energy sector attracted USD 343 million in FDI for the country.

Tourism

Tourism is another area that has a significant positive impact on the Georgian Economy. As one of the most dynamic growth industries in Georgia, tourism delivered impressive growth over the past three years with the number of visitors reaching 5.5 million in 2014, compared to 2.8 million in 2011. According to the Georgian National Tourism Agency, revenues from this sector reached GEL 1.8 billion in 2014 (4% higher than in 2013), representing 6% of Georgian GDP. Historically, the government has been aggressively improving tourist infrastructure in different parts of the country, developing natural seaside beach resorts as well as winter ski attractions famous among former Soviet citizens. Tourists are also attracted to traditional Georgian cuisine and wine, hiking in different regions of the country, and unique historic places and sites.

Agriculture

The agricultural sector also has strong growth potential due to a number of factors. Under the DCFTA agreement, the EU and Georgia will remove all their import duties on agricultural products, creating export opportunities. Supported by the continuing growth in tourism, demand for agricultural products including food, mineral water and wine is increasing. Additionally, after a five-year embargo, Georgia resumed exports of mineral water, wine and other agricultural products to Russia, providing further growth potential for the sector. Development of the agricultural sector is one of the main priorities of the Georgian Government and hence, further investment in the sector is expected.

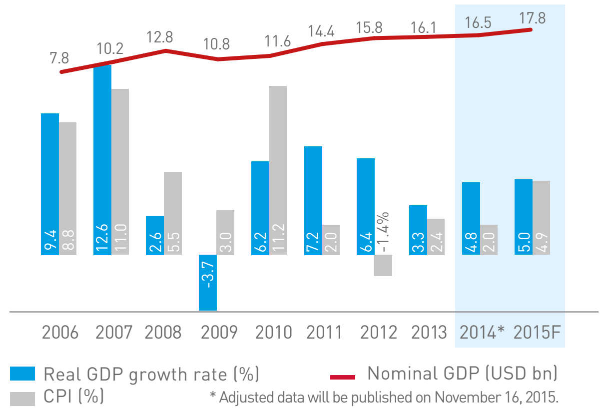
Healthcare

Since 2013, the Georgian Government has also directed large funding to creating a universal healthcare insurance programme for the entire population. Introduction of the universal insurance system caused a large increase in healthcare demand, creating opportunities for healthcare investment. In addition, the fast-developing healthcare system has led to increased medical tourism.

Georgia's GDP

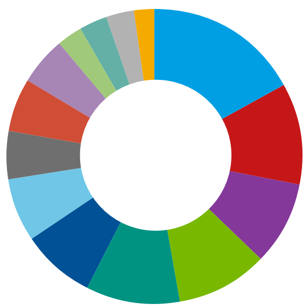
Average real GDP growth (2010-2014):

5.6%



* Adjusted data will be published on November 16, 2015.

GDP composition



- Wholesale, retail trade **17%**
- Manufacturing **11%**
- Agriculture, hunting fishing **9%**
- Other sectors **10%**
- Public administration **10%**
- Transport **8%**
- Construction **7%**
- Education **5%**
- Health and social work **6%**
- Real estate **6%**
- Communication **3%**
- Electricity, gas, water **3%**
- Financial intermediation **3%**
- Hotels and restaurants **2%**

Strategic Report

Operating Environment and Market Overview

Continued

Country Ratings

In 2014, two rating agencies, Moody's and Fitch, changed the outlook on Georgia's sovereign rating to positive from stable. The Moody's rating for Georgia's unsecured long-term FX debt currently stands at Ba3 and Fitch sets Georgia's long-term foreign and local currency Issuer Default Rating at BB-.

Recent Regional Developments and their Effects on Georgia

Georgia is well positioned in respect of developments in Russia and Ukraine in 2014 due to its diversified economy, which experiences limited direct effects of the crisis in these two countries. The most important effect is on remittances, as overall remittances from Russia decreased by 11.5% in 2014 compared to 2013 (approximately USD 92 million decrease in absolute terms). However, due to their nature, remittances are expected to recover gradually. Trade with Russia and Ukraine accounts for 9.6% and 4.9% of exports and 6.7% and 6.4% of imports, respectively. FDI from these two countries represents a relatively small element in the total and in 2014 Russian and Ukrainian FDI accounted for 5% of the total amount (3% in 2013).

As oil and refined products account for 11% of total imports, falling oil prices will help the country to improve its trade balance and will support GDP growth in 2015. However, some decrease in demand for Georgian products is expected from the country's oil dependent trade partners (Kazakhstan, Azerbaijan, Russia).

Georgia's major export markets are the EU (22% of total exports) Azerbaijan (19%), Armenia (10.1%), Russia (9.6%) and Turkey (8.4%). The major sources of imports are the EU (28%), Turkey (20.1%) and China (8.5%).

The USD appreciated against most of Georgia's main trading partners and neighbours, which led to pressure on the GEL/USD currency rate. The rate declined to 1.8636 at the end of 2014 (a 7% depreciation). This depreciation was not comparable to that of the other currencies in the region. In fact, the Lari appreciated against the Euro by 5%, against the Rouble by 38%, 46% against the Ukrainian Hryvnia and 1% against the Turkish Lira. GEL depreciated by 1% against the British pound.

Partner Countries' Currency Depreciation[a]

USD	GEL	EUR	RUB	UAH	TRY	GBP
31.12.13	1.7363	0.726	32.7292	7.993	2.1318	0.605
31.12.14	1.8636	0.822	56.2584	15.7686	2.323	0.642
Appreciation	7%	13%	72%	97%	9%	6%

Partner Countries Currencies Depreciation

GEL	EUR	RUB	UAH	TRY	USD	GBP
31.12.13	2.3891	0.0531	0.2172	0.8122	1.7363	2.8614
31.12.14	2.2656	0.0329	0.1182	0.8040	1.8636	2.8932
Appreciation	5%	38%	46%	1%	-7%	-1%

(a) Exchange rates according to the National Bank of Georgia, European Central Bank, Central Bank of Russia, National Bank of Ukraine, Central Bank of the Republic of Turkey, and US Department of Treasury, respectively.
(b) Since the January 2015 merger of Bank Constanta, there are 20 commercial banks in the country.
(c) Adjusted data will be published on November 16, 2015.
(d) Sector NPL is defined as loans overdue 90 days or more. Data provided by the NBG.

Depreciation against the USD had a negative impact on consumer prices. However, it was partially positively offset by the global fall of food and energy prices, as well as by the fact that the currencies of most of Georgia's trading partners have also depreciated against the US Dollar. As a result, inflation in Georgia reached 2%, compared to 2.4% in 2013.

Banking Sector

As of 31 December 2014, there were 21[b] banks operating in the market with total assets of GEL 20.6 billion (70.6% of GDP, per estimates). Georgia's banking sector is highly concentrated, with twelve banks accounting for 95.6% of total assets (top two largest banks account for 59%), and is fully privately owned. According to the IMF, the banking sector is one of the healthiest among peer countries. The sector has relatively low penetration levels compared to peer group countries. As of YE 2013 the loans/GDP ratio in Georgia was 39.4%, with the 2014 preliminary calculations at 44.8%[c]. As of the same date, penetration in peer group countries was as follows: Croatia 86%, Slovenia 80%, Bulgaria 74%, Turkey 69%, Ukraine 64%, Poland 60%, Slovakia 53%, Russia 53%, Kazakhstan 40%, and Romania 34%.

The Georgian banking system has two main features: strong capital adequacy, which is high at around 17.4% as of YE 2014 and is one of the highest among frontier markets, and a liquidity requirement of the NBG for a minimum of 30%, which is also one of the highest among peer countries. Asset quality is also reasonably good, with a system-wide NPL ratio of 3.1%[d] as of 31 December 2014.

The Georgian banking sector has a high level of dollarisation at 60.4% and 60.1% of banking loans and deposits respectively, although there are higher risk weightings applied to FX loans (175%) causing the local capital adequacy ratio to be lower. National Bank capital requirements show strong sector capitalisation with 13.6% of Tier 1 and 17.4% of total capital ratios as of YE2014.

Due to the current low levels of both GDP per capita and credit penetration, as well as the strong fundamentals of the banking system, the sector has high growth potential due to positive growth trends in both GDP and penetration.

This openwork bronze buckle was preserved at a village school museum in Western Georgia until 2001. Its unique design, built around the central sun figure, points to a semantic connection with a pre-Christian astral cult. The artefact is dating back to the first few centuries of the Christian era.

Strategic Report

People

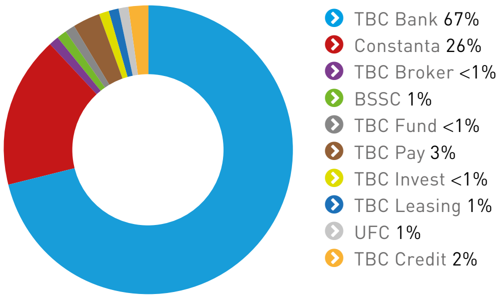
Our highly professional workforce is one of the key competitive advantages of the Bank. In 2014, we continued strengthening our corporate culture, developing our people and providing interesting opportunities to grow with the Bank.

As of 31 December 2014, TBC Bank, together with its subsidiaries, employed 5,128 people, 657 or 14.4% more than as of the same period in 2013. TBC Bank alone employed 67% of the total workforce, while 92% worked at TBC Bank and Bank Constanta combined. The remaining 8% of our employees were employed by TBC Kredit, TBC Pay, TBC Leasing and other smaller subsidiaries.

TBC Group Employees

	2014	2013	2012
TBC Bank	3,427	2,906	2,890
Bank Constanta	1,306	1,256	982
Other	395	309	265

TBC Group Personnel By Company (%)



Turnover rates by department

TBC Bank has one of the lowest employee turnover rates in Georgia at approx. 0.61% per month in 2014.

Turnover rates	2014		2013	
Head Office + Branches	7%	187	7%	153
Finance	14%	6	5%	2
Corporate	7%	4	13%	6
Retail & SME	5%	7	8%	8
Operations	4%	14	4%	12
Risks	7%	6	9%	7
IT	8%	10	12%	14
Branches	8%	107	7%	89

Gender Breakdown of Employees

	Male	Female
TBC Bank	994 (29%)	2,433 (71%)
Constanta	583	723
TBC Broker	1	1
BSSC	33	1
TBC Fund	1	1
TBC Pay	108	23
TBC Invest	3	1
TBC Leasing	14	14
UFC	40	34
TBC Credit	72	48

	31-Dec-14	
TBC Bank Employee Breakdown by Gender	Male	Female
All employees	29%	71%

	31-Dec-14	
Leadership in TBC Bank	Male	Female
Top Management	87%	13%
Middle Management	60%	40%
Supervisory Board	86%	14%

	31-Dec-14	
TBC Bank Employee Breakdown by Location	Branches	Head Office
All employees	53%	47%

Equal Opportunity Employment and Gender Balance

TBC Bank is an equal opportunity employer. As part of our Code of Conduct we do not discriminate in employment decisions based on gender, ethnicity, religion, disability or other protected categories.

TBC Bank Employee age breakdown

	2014	2013
<20	1%	2%
20-29	59%	56%
30-39	29%	30%
40-49	8%	9%
>50	3%	3%

Performance Assessment and Remuneration

HR has developed an extensive policy to evaluate professional growth and skills of our employees. Branches and other front office staff have performance based motivation system (linked to financial and other operational KPIs) that was developed by external consultants.

Certain Head Office staff are evaluated against a Management by Objectives (MBO) system where an employee and the respective manager agree to the goals and objectives that are closely aligned with the broad organisational strategic objectives. The process includes ongoing tracking and biannual feedback on employee achievements. Performance Assessment and final feedback is standardised across the Bank and is based on a uniform scoring system that managers are required to use.

From 2014, TBC Bank HR reconsidered the policy of obligatory identification of top performers and under performers based on normal distribution, providing the middle management more independence in giving final score to their subordinates.

Employee Communication and Survey

Regular communication with employees is an integral part of the Bank's corporate culture. We make sure our team is up to date with the latest information of the Bank's activities via our executive presentations, TBC magazine, intranet content and different corporate events organised by the HR Department.

In 2014, TBC updated its communication strategy and started regular visits to branches in order to promote inclusive culture. Contact persons were established with the responsibility to concentrate on smooth communication between branches and the head office. The Bank also introduced an SMS Service – TBC Family – in order to send employees important updates directly via SMS. TBC also started a Talent Club to spotlight employees gifted in music, art, science or sports.

The HR department regularly conducts Employee Satisfaction and Engagement Surveys in order to assess the attitude of our staff members and take actions accordingly.

Employee Benefits Policy

TBC Bank provides various types of non-wage compensation to employees including bonuses, paid annual leave and sick leave, competitive pension and health benefits and non-monetary benefits. We at TBC highly value our staff and recognise that our success largely depends on the outstanding performance of our workforce and thus, TBC offers a market-leading employee benefits package.

Employee Training and Leadership Development

TBC Bank's HR Strategy is to have the best employees on the market with high performance and company loyalty. Its HR management system is supported by a tailored IT system to manage personnel through career planning, training and performance evaluations. TBC Bank provides internal training programmes via TBC Academy and mandatory training programmes based on required skills for the department. TBC Academy is an in-house educational resource that provides the Bank's employees an opportunity to acquire knowledge in various banking disciplines. The Academy features lecturers from the Bank's top and middle management.

Fundamental changes were made in the employee training programme with the introduction of a distance learning system launched in 2013. This gives the opportunity to improve knowledge, skills and professionalism of employees in a shorter period of time and with less cost.

TBC will continue setting new instruments to improve employee qualifications in order to acquire and maintain the best professionals on the market.

MBA and Qualifications

In addition to in-house training opportunities, TBC Bank provides support to the best employees for external training, financing internationally acknowledged qualifications such as CFA and ACCA as per the departments' requirements.

TBC also operates a Scholarship Fund, created in 2012, that has already financed ten middle managers from the Bank who have had their MBAs co-financed both locally as well as internationally.

Schedule of employee benefits

	Trigger	Type of benefit
Health insurance	After 1 year	Monthly co-payment
Pension funds	After 2 years	Monthly co-payment
Social benefits		
Marriage	After 6 months	By case
Child birth	After 6 months	By case
Death of a family member	After 6 months	By case
Paid leave and day off	After 11 months	By case
Non-tangible motivation for middle management	0 months	Annual Ind. fund
International and local MBA, training, seminars	After 2 years	Competitive

Strategic Report

Operating and Financial Overview

Main Achievements in 2014

The Largest Retail Bank

In 2014, TBC Bank became the largest retail bank in the country. We also maintained our market leadership in retail deposits of over eight years.

Customer Relationship Management

TBC Bank is one of the first banks in Georgia to develop advanced CRM capabilities. We are partnering with Oracle by implementing Siebel CRM solution, a market leader in the financial sector and the world's most complete CRM product. During 2014, we continued to integrate our region-best CRM capabilities into our business operations. In February 2014, the CRM system launched its first operational component in the Retail and SME business lines and the call centre.

Multichannel Results

TBC Bank has a globally recognised multichannel distribution platform that continued to successfully offload routine transactions from branches to e-channels, while minimising cost and unnecessary branch network expansion throughout 2013 and 2014. By the end of 2014, the number of our active clients[a] for internet and mobile banking exceeded 155,000 and 62,000, respectively – the highest number of active internet banking users in the country. The share of remote channel transactions in total number of transactions reached 82%. Due to the effectiveness of our remote banking initiatives, we also maintained the most efficient and productive branch network in the country. As at YE 2014, the Bank's gross loan-per-branch stood at GEL 30 million – more than any other Georgian bank.

Merger with Constanta

At the beginning of 2015, TBC Bank completed the legal and operational process of integrating Bank Constanta within the set schedule. The former operations of Bank Constanta are now undertaken by TBC Bank and the identical range of products and services is available throughout the whole network of TBC and former Bank Constanta branches. This was the largest merger ever accomplished in the Georgian private sector.

In order to further enhance our leading positions in the micro finance segment, TBC Bank acquired the micro loans portfolio from ProCredit Bank of c. GEL 40 million, approximately 14% of TBC Bank's current micro loans portfolio.

(a) We changed the definition of active IB users in 2013. Currently, clients who have accessed internet banking at least once over last three months are counted as active users, in line with the number used in our latest annual report.

Retail

Segment Overview

In 2014, TBC Bank became the largest bank in the country in terms of retail deposits and retail loans, accounting for 34% and 30% of the market shares, respectively, as at YE. The retail business delivered CAGR of 26% and 22% in loans and deposits over the last three years.

The segment serves over one million customers through its 120 branches and offers its clients a wide range of products, including:

- Credit products—variety of consumer loan products (47% of retail loan book), mortgage loans (43%), and pawn loans (10%);
- Accounts and deposit products;
- Debit cards—Visa and MasterCard;
- Operational products—cash operations, currency exchange, wire transfers, safe and deposit boxes; and
- Insurance products.

The retail loan book composition as of YE2014 consists of consumer loans at 47%, mortgage loans at 43%, and gold pawn loans at 10%.

As of 31 December 2014, retail loans increased to GEL 1,667 million, up 38.0% YoY and 15.3% QoQ. As at 31 December 2014, retail deposits increased to GEL 1,977 million, up 22.8% YoY and 10.6% QoQ. In 2014, retail loan yields and deposit rates stood at 17.4% and 4.6% respectively and the segment's cost of risk was 1.6% during the same period. Fee and commission income generation increased by 13.6% in 2014.

Awards

TBC Bank was honoured to be recognised for its leadership in a number of key business lines, as well as for its overall performance as the best bank in Georgia by all major publications, including Global Finance, The Banker, Euromoney and EMEA Finance Magazine. TBC was named as the Best Private Bank in Georgia 2014 by The Banker and the Professional Wealth Management Magazine, an FT publication. This competition was extended to Georgia for the first time in 2014. TBC continued to achieve outstanding results for its internet banking, which named as the best in two categories in Central and Eastern Europe by the Global Finance Magazine. We were also recognised for our Corporate Social Responsibility in Central and Eastern Europe by EMEA Finance. A comprehensive list of our awards is available on the Investor Relations website.

PWM The Banker GLOBAL PRIVATE BANKING AWARDS 2014 BEST PRIVATE BANK GEORGIA

Global Finance

The Banker Bank of the Year 2014 GEORGIA

EUROMONEY Awards for excellence 2014

emeafinance Europe • Middle East • Africa EUROPE BANKING AWARDS 2014

Lexo Khubulava, TBC STATUS Client

Today, busy timetables often leave no time for money management. Connecting with a personal banker who takes care of long and short-term financial goals regardless of daily distraction makes all the difference.

Lexo Khubulava, founder of the most popular Georgian career website, found that connection at TBC Bank STATUS – the same private banking service that assists more than 4,600 clients in the country.

"I bank with TBC because of its high-tech solutions and consistently outstanding personal services. When I was considering a new card for my expenditures, my Personal Banker offered the STATUS card, a special product with the most flexible and well-tailored features on the market. What is best, I can monitor and control all my financial products, including my debit and credit cards, straight from internet and mobile banking," explains Khubulava.

"I never worry about financial issues, as I know I am in good hands with TBC Bank" says Khubulava.

For its excellence in private banking, The Banker and Professional Wealth Management Magazine, part of the Financial Times family, chose TBC Bank as the Best Private Bank in Georgia in 2014.

Strategic Report

Operating and Financial Overview

Continued

Corporate Segment

Segment Overview

Corporate business is a leading franchise for TBC Bank with established business relationships with many of the key corporate clients in Georgia. As at 31 December 2014, TBC Bank was the second largest bank in terms of legal entity loans and deposits in the Georgian banking sector, accounting for 25.8% and 23.0% respectively. The legal entities market share comprises all legal entity loans and deposits, including those in the Corporate, SME and Micro segments. The Corporate segment has delivered CAGR of 7.1% and 6.0% for corporate loans and deposits respectively during 2011-2014.

The segment serves approximately 1,500 customers, offering strong expertise in syndicated deals, agribusiness and energy efficiency programmes, as well as wine, hydro power and healthcare.

The Corporate segment offers a wide range of products, including:

- Credit products—working capital loans, credit lines, overdrafts, corporate cards, long-term balance sheet finance, project finance, trade finance including guarantees and LCs, factoring and other trade finance products;
- Treasury products—currency exchange operations, currency risk management, and FX derivatives;
- Deposit & other products—term deposits, current/saving accounts, cash management, cash collections, internet banking, and payroll services; and
- External third-party products—leasing, insurance packages, and hedging services.

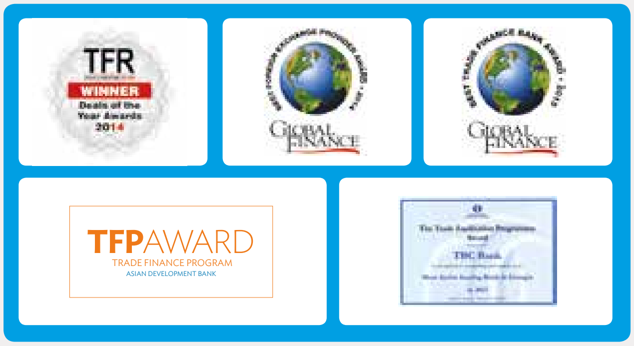
The broad product offering and client relationships provide an opportunity to deliver diverse loan/credit exposure to customer in, trade and services of 21%, energy 17%, consumer goods and automobile trading 10%, real estate 8%, oil and gas 8%, communication 8%, agriculture 7%, food industry 7% and other industries at 14%.

As of 31 December 2014, corporate loans increased to GEL 1,232 million, up 6.4% YoY and 13.6% QoQ. As at 31 December 2014, corporate deposits increased to GEL 833 million, up 1.6% YoY and 11.6% QoQ. In 2014, corporate loan yields and deposit rates stood at 10.7% and 3% respectively and the segment's cost of risk was 1.8% during the same period. Fee and commission generation increased by 13.9% in 2014.

Awards

Among notable distinctions this year were achievements of the Trade Finance team, where our transaction was named among Top 15 Global Trade Finance Transactions by the TFR Magazine and was selected as the Best Trade Finance Bank in Georgia by the Global Finance Magazine.

Additionally, TBC maintains its title as the Best FX Provider in Georgia, awarded by the Global Finance Magazine, for the third consecutive year, having won the award in 2013, 2014, and 2015. A comprehensive list of our awards is available on the Investor Relations website.



Gudauri Snowmaking Project

Georgian ski resorts are key winter attractions for ski-lovers around the world. With support from TBC Bank, the 2014/15 season at the Gudauri Ski Resort opened on 20 December with artificial snow cover.

Our Letter of Credit (LC) for the artificial snowmaking equipment allowed the Mountain Resorts Development Company (MRDC), a state-owned entity managing and developing two famous Georgian ski resorts, to guarantee a successful ski season every year regardless of natural snowfall.

TBC Bank provided an LC with post-financing and negotiated a very flexible prepayment option for the MRDC. Our experienced trade finance team helped the MRDC structure not only the transaction, but also a productive partnership with the provider company, Demaclenko. In addition to the trade finance services, TBC cooperated with the Company to create additional seasonal services for ski lovers – such as instalment payments for ski passes.

Commenting on the partnership, the Head of MRDC, Alexandre Onoprishvili said: "With TBC Bank's support, we received terms and conditions that were perfectly suited for our goals at any given moment of the transaction. The trade finance team's expertise and flexibility was most important to us. Additionally, you always receive traditionally excellent service when working with TBC Bank."

Due to its significance to the Georgian economy, this transaction was named among Top 15 Global Trade Financial Deals in 2014 by the Trade and Forfaiting Review.

Strategic Report

Operating and Financial Overview

Continued

SME

Segment Overview

TBC is one of the strongest banks on the market in the SME segment and offers outstanding multichannel capabilities and an efficient relationship model with high levels of customer experience. Over the period 2011-2013 the SME business line delivered a strong growth for the bank. The total loan book was growing at CAGR of 20%, while SME at CAGR of over 31%. TBC's clients fall under the SME division if they are entities with loans of up to USD 1.5 million with turnover below GEL 8 million. As at December 2014, gross loans to SMEs totalled GEL 534 million, giving the Bank the largest loan book on the Georgian SME market.

The segment offers a wide range of products, including:

- Credit products (loans, credit lines, overdrafts, letters of credit, guarantees)
- Deposit products and payment solutions (current account, savings account, term deposit, wire transfer, business cards, payroll services, merchant solutions/POS terminals) and
- Operational products (internet banking, SMS services, money market, derivatives, cash collection, escrow account, direct debit).

As of 31 December 2014, TBC Bank served approximately 56k customers through the SME business line.

The SME loan book composition is diverse and as of YE 2014 consists of trade and services at 39%, food industry at 11%, real estate at 11%, consumer goods and automobile trading at 9%, construction at 8%, agriculture at 4% and other industries at 18%.

As of 31 December 2014, SME loans increased to GEL 534 million, up 36.0% YoY and 15.9% QoQ. As at 31 December 2014, SME deposits increased to GEL 508 million, up 12.4% YoY and 9.7% QoQ. In 2014, SME loan yields and deposit rates stood at 12.3% and 1.6% respectively and the segment's cost of risk was 0.4% during the same period. Fee and commission income generation increased by 26.1% during 2014 compared to 2013.

Business Support Programme

As a leading bank in the SME segment, TBC Bank has the opportunity to directly work with the founders and key employees of small and medium Georgian businesses. We have identified and considered the challenges our clients face in this fast-advancing segment and have designed a long-term, value-added service that is a novelty for the banking sector in the Caucasian region.

The Business Support Programme provides us with a platform for productive dialogue with our SME clients. Through free training sessions, offered with the support of the Asian Development Bank (ADB), free consultations with our partner organisations (EY, BDO and others), and the business resource-rich database developed in partnership with IBM and IFC, we offer our SME clients a development tool that is unmatched by its responsiveness to the challenges faced by the modern Georgian SMEs. The Programme also allows TBC Bank to better understand its client needs and educate them about the services and products offered by TBC Bank.

The Programme consists of seven components, the majority of which launched in 2013, including free training sessions, upgraded Internet, Mobile and SMS Banking for legal entities, the educational web platform – www.tbcbusiness.ge, and exclusive SME conferences.

In 2014, we fully launched all components of the Business Support Programme and a comprehensive list of all service offered is provided below.

- Free training sessions financed by ADB with 2800 clients trained in two cities
- Upgraded Internet Bank for legal entities
- Completely new Mobile Bank for legal entities
- First educational web portal in the region, SME Toolkit Georgia, or www.tbcbusiness.ge (financed by IFC and in partnership with IBM). Here, businesses can find readily available Georgian-language resources that include tools for financial accounting, direct selling, and human resource management. The portal also offers pre-set materials, such as agreement forms, template accounting forms and a Q&A blog
- SMS Banking services for legal entities
- Conferences and events offered by business sector
- Free business consultation services for SMEs, launched in partnership with PUM (the Netherlands Senior Experts service). Through this exclusive partnership, TBC offers a special, tailored service to our client SMEs that encompasses a thorough analysis of their operational, business and development needs in order to select the most suitable PUM experts from their extensive, international database. The service is indispensable for our SME clients, since their main difficulty is in understanding and addressing the weaknesses and shortfalls they currently have in their business and operational processes.

Le Gateau Bakery

Le Gateau is a popular family-owned bakery in Tbilisi with annual sales of GEL 1.8 million. TBC Bank is proud to have supported Le Gateau from the startup idea to its current 2 locations in the central part of the capital.

Cooperation between TBC Bank and Le Gateau started in 2011, when the patisserie had only 20 employees. TBC Bank worked closely with Le Gateau owners, providing advisory and strategic services, as well as working capital and investment loan financing and depositary services. Today, Le Gateau employs over 80 people. The bakery delivered 64% increase in sales during 2014 and expects a further 50% jump by the end of the year with the help of its second branch, which opened in early 2015.

The latest investment loan to Le Gateau served to establish a completely streamlined and effective production line in compliance with international standards of quality.

"We are striving to achieve the highest quality, while maintaining acceptable prices. We are also optimistic about our future success, where TBC Bank's resources and expertise are vital to our long-term development plans" – comments Ms Manana Andjaparidze, owner and founder of Le Gateau.

Strategic Report

Operating and Financial Overview

Continued

Micro Finance

Segment Overview

Micro-finance is also one of the key areas for TBC as the segment offers high margins and large growth potential. TBC Bank Constanta is one of the market leaders in the microfinance and delivered the highest loan book growth of CAGR 48% over 2011-2014. Micro deposits grew by 64% over the same period.

The full merger with Constanta provides a new opportunity not only for customers to benefit from TBC's services but also for TBC to further expand its business in the market's fast-growing microfinance segment of the market. TBC Bank Constanta serves over 36 thousand clients in Georgia through 60 branches across the country.

TBC Bank Constanta offers diversified loan products to its clients, including:

- Credit products – mini loans, business loans, agricultural loans, seasonal loans and others specifically tailored for a wide range of customers with different needs
- Deposits products
- All other products previously available only to TBC Bank clients

The micro loan book composition is diverse and as of YE 2014 consists of agriculture at 57%, trade and services at 38%, transportation at 2%, and other industries at 3%.

As of 31 December 2014, Micro loans increased to GEL 274 million, up 36% YoY and 14.5% QoQ. As at 31 December 2014, Micro deposits increased to GEL 5 million, up 9.9% YoY and down 5% QoQ. In 2014, Micro loan yields and deposit rates stood at 24.8% and 4.2% respectively and the segment's cost of risk was 2.6% during the same period. In 2014, fee and commission income generation increased by 43.1% YoY.

Subsidiaries

TBC Leasing

TBC Bank offers leasing services in Georgia through its majority-owned subsidiary, TBC Leasing. These include finance leasing, leaseback, residual lease, and service leases. Leasing arrangements are primarily entered into with customers in the construction, medical, agriculture, transportation and service sectors.

TBC Leasing is the market leader with 69% of market share of the Georgian leasing financial services market. TBC Leasing's diversified customer base provides significant cross-selling opportunities and growth potential.

International Operations

Although the vast majority of TBC's operations (representing 98% of our assets) are conducted in Georgia, we also operate in Azerbaijan and Israel through our subsidiaries, TBC Kredit and TBC Invest respectively. Acquired in 2007, TBC Kredit is a non-banking credit organisation focused on SME and retail customers, offering SME and retail loans, consumer loans and mortgages. TBC currently holds a 75% equity interest in TBC Kredit. With headquarters in Baku, TBC Kredit operates four additional branches throughout Azerbaijan.

TBC Invest is a wholly-owned subsidiary established by TBC Bank in 2011 to act as an intermediary, providing Israeli clients with information and access to the Georgian banking system. It offers information to individuals and companies in Israel (Israeli businesses connected with Georgia and family offices) about TBC Bank's products and services, fees and interest rates. As at 31 December 2013, more than 560 customers have opened accounts through TBC Invest.

Other subsidiaries

TBC Group comprises five more companies operating in related industries in order to support TBC's main activities. These include:

JSC United Financial Corporation and TBC Pay LLC process card payments and supply payment collection services to providers of self-service machines and POS, WAP and Windows terminals.

JSC Real Estate Management Fund, which manages property we have repossessed for future sale.

Banking Systems Service Company (BSSC) LLC provides technical services and software support for electronic banking systems (such as POS and cash machines).

A variety of products and brokerage services are provided to our Georgian customers through our wholly-owned subsidiary TBC Broker.

Micro Farm in Eastern Georgia

Alexander Naverian, one of our micro clients, grew his small household business in Eastern Georgia to a micro farm that now produces its own agricultural and dairy products. His latest GEL 95,000 loan from TBC Bank Constanta, disbursed within the agricultural development programme, helped the client to equip his business with appropriate technology to expand and diversify his production.

Alexander Naverian began working with TBC Bank Constanta in 2014, when his primary activity was minor household farming with an annual income of GEL 85,000. With our financial backing, Naverian built a small farm that houses 85 units of grazing livestock and is equipped with necessary machinery to ease livestock maintenance. Today, the micro farm has doubled its income to c. GEL 160,000. The farmer is now able to produce cheese and other dairy products that he then sells to restaurant and supermarket chains. Due to high demand, Naverian has extended his business to procuring milk from nearby villages, creating income opportunities for the wider community as well.

TBC Bank Constanta has a significant presence in the rural agricultural sector, where over 27,000 small farmers and entrepreneurs share Naverian's success story. With CAGR 81% growth in micro-finance lending to the agricultural sector over 2011-2014, we are proud to support agricultural development in Georgia.

Strategic Report

Distribution Channels

Our distribution channels include 120 branches (including 60 Bank Constanta branches), 352 ATMs (including 57 Bank Constanta ATMs) and 4,802 POS terminals (3,200 of which have contactless payment capabilities), 2,262 cash-in terminals (TBC Pay), internet banking, call centre, and mobile banking. TBC Bank has continued to differentiate itself through customer-friendly and high quality branch design, providing superior customer experience to the Bank's customers.

Innovative multichannel capabilities are considered as one of the main competitive advantages of the Bank, which is proven by our multiple awards throughout past years. In 2014, TBC Bank received an award for the Best Consumer & Corporate Internet Bank in Georgia in Central & Eastern Europe from Global Finance magazine.

TBC Branch Network Map is available in the TBC at a Glance section on page 08.

Branch Efficiency

We have been constantly working on optimising our branch network and increasing efficiency in branches through high quality service and customer centric branch design. We maintain one of the best branch productivity indicators among peers in the market by standardising our services, monitoring customer relations and evaluating their quality, and making constant improvements to satisfy and retain our large client base.

TBC Bank started to actively develop its branch network from 2007, with the help of a consultancy Senteo. The layout of branches was designed to maximise sales and operational effectiveness. In 2012, with the help of a strategic consultant, a Lean Management mechanism was introduced to take full advantage of existing layout and increase costumer experience and operational and sales effectiveness. Hence, our Customer Experience Index was improved by 5.6% and sales and operational effectiveness by 20%-22% by 2014.

After the merger with Bank Constanta, TBC Bank started offering the full range of TBC and Constanta products in both types of branches. After full rebranding, newly merged branches will be operating under the name – "TBC Bank Constanta".

In order to take it to the next level, the Bank hired Peppers & Rogers Group, a consultancy that will develop a new retail branch design strategy, transforming it into a modular Branch of the Future blueprint that can be applied to TBC Bank's future branch network. TBC Bank is developing three pilot sites to be launched in 2015.

E- Banking

TBC Bank has been leading the market in Internet and Mobile banking for several years. Our multichannel platform allows our customers to complete a majority of banking transactions from remote channels in the fastest and the most convenient way possible.

TBC Bank launched the first Internet bank in November 2001. Starting from 2012 TBC Bank launched the new Multichannel project, updating its internet bank and offering the first ever iPhone and Android mobile banking applications in the country. In 2013, the bank also introduced the first Internet banking application for the iPad. As a result, the Bank managed to offload the majority of its transactions to remote channels and as of 31 December 2014, 82% of the Bank's total transactions were made through remote channels. Overall, TBC Bank has been very active in developing its multichannel capabilities that brought Georgian customers the new award-winning internet banking and advanced mobile and iPad banking with 5 star Apple store rating.

TBC Bank's internet and mobile banking provide a wide range of advanced features that are in line with global trends, leading the Georgian market in banking innovation. All banking services are integrated into the multichannel platform, giving customers the 360 degree view of their accounts, with the functionality to manage their money easily anytime, from anywhere and with any device with a single log-in.

	2014	2013	Growth
Number of active Internet or Mobile Banking users	**161,548**	130,923	23%
Number of active Mobile Banking users[a]	**62,435**	26,979	131%

(a) The number includes active Mobile Banking users, who may also visit Internet Banking.

TBC Bank's multichannel platform is differentiated by several key capabilities:

- Full Synchronisation and Core Banking Integration
- Flexible Platform Architecture for future updates
- Market-leading Personal Finance Management (PFM) Tool
- Online Product Sales

In 2014, we have been working on refining our digital channels by further improving our sales functionality, updating design, and offering even more user-friendly log-in and authorisation systems. The goal of the multichannel effort is to always stay ahead of the competition in digital channels, increase the number of products sold remotely, further improve the share of remote transactions and branch offloading, and contribute to improving customer satisfaction. Remote channels have also become a source for client acquisition. In 2014, the number of active Internet Bank users only reached 155,000 and the number of active Mobile Banking users reached 62,000, which is the largest digital banking customer base in Georgia.

Other Channels

Apart from branches and digital channels, TBC bank operates one of the largest networks of ATMs, POS terminals, call centre and cash-in terminals (TBC Pay). TBC Pay Mini Branches (cash-in terminals) are located in TBC branches, shopping centres, streets, retail chains and other crowded areas offering customers fast and convenient day to day banking. Clients can repay loans, cover utility bills and parking fines, top-up mobile and deposit to their accounts. TBC Pay terminals help further increase retail penetration, as TBC is able to serve clients at their preferred locations while offloading day-today transactions from traditional branches.

The Call Centre serves approximately 100-150 thousand calls per month with c. 90% of customer satisfaction index. The Bank has been actively increasing call centre sales productivity and gradually offloading non-sale calls to digital channels. More than 100 of TBC Bank's staff are employed at the call centre.

Strategic Report

Principal Risks and Uncertainties

Risk	Why we think this is important
Risks Relating to TBC's Business	
TBC may not be successful in implementing its strategic plans	The strategy of TBC's management (**Management**) includes growth in each of TBC's retail, corporate, small and medium enterprise (**SME**) and micro segments, a specific focus on improving profitability by increasing income and reducing costs and a continued drive to build upon TBC's current business strengths. See *"Strategic Report – Strategy"*. The further development of TBC's business, particularly the implementation of these strategies, may be subject to a number of risks and challenges, including that: • TBC may not be able to attract new retail, SME or micro customers, whether from its competitors or otherwise, in order to achieve the growth necessary to grow its market share in the retail, SME and micro finance markets in Georgia, or those segments may experience less growth or profit potential than TBC anticipates; • TBC may fail in its attempts to identify and offer attractive new products and services to corporate clients, or may otherwise be unable to retain or expand its corporate client base in order to maintain its current position as a market leader in banking services to large corporate businesses; • TBC may be unable to optimise its income growth by increasing the proportion of its fee and commission income relative to its total income, or the new initiatives it undertakes to increase fee and commission income may not be as successful or as profitable as TBC expects; • TBC may be unable to further develop or enhance the capability of its multichannel distribution platform in order to grow its client base and more efficiently serve customers, or may be unable to do so in a profitable manner; • TBC may not be able to maintain the superior customer experience that Management believes is one of the differentiators underlying its position as one of the most well known and trusted brands in Georgia, which could weaken TBC's ability to generate and retain the customer loyalty and adversely affect its ability to grow its share in the Georgian banking market and improve profitability; and • the cost efficiency initiatives currently planned or being implemented by TBC, such as the core banking system transformation project and the integration of the administrative and other functions of TBC Bank and Bank Constanta, may not succeed, or may not achieve the level of savings or cost optimisation anticipated by TBC. These strategic plans may have less growth or profit potential than TBC anticipates, and there can be no assurance that any of these initiatives will improve profitability to the extent that TBC desires or at all. Furthermore, although TBC believes that these strategies will enable it to achieve a greater return on average equity (**ROAE**) in future periods, there can be no assurance that this will occur, or that its ROAE will not decline. Any of the foregoing may have a negative impact on TBC's ability to meet its future growth plans, as well as on its business, results of operations and/or prospects.
Any decline in TBC's net interest income or net interest margin could lead to a reduction in profitability	TBC derives the majority of its total income from net interest income. Consequently, TBC's results of operations are affected by fluctuations in its net interest margin, which is its net interest income (before provision for loan impairment) divided by its average interest earning assets. In particular, the results of TBC's banking operations depend on the management of key factors that affect TBC's net interest margin, such as underlying interest rates, competition for loans and deposits, customer demand and costs of funding. These key factors are influenced by factors beyond TBC's control, such as (among others) global and local economic conditions, the resources of TBC's competitors and business and consumer confidence. Moreover, interest rates and TBC's cost of funding are highly sensitive to many factors beyond TBC's control, including monetary policies and domestic and international economic and political conditions and the reserve policies of the National Bank of Georgia (the "**NBG**"). Any decrease in interest rates on TBC's loans to its customers, alone or in combination with increases in rates payable on deposits or other interest bearing liabilities, could have a material adverse effect on TBC's future net interest income, net interest margin and, accordingly, its future profitability. TBC's net interest margin was 8.5%, 8.4%, and 7.7% in the years ended 31 December 2014, 2013 and 2012, respectively. TBC's net interest margin increased slightly in 2013 and 2014, however net interest margins in Georgia have generally declined in recent years, and this downward trend may continue. There can be no assurance that TBC will be able to protect itself from the negative effects of future declines in its net interest margin. Any reduction in TBC's net interest margin caused by changes in the key factors outlined above, or otherwise, could have a material adverse effect on TBC's net interest income, which could, in turn, have a material adverse effect on TBC's business, financial condition and results of operations.

Risk	Why we think this is important
TBC faces significant competition, which may increase in the future and have an adverse impact on its business	The Georgian banking sector is very competitive, and TBC is subject to competition from both domestic and foreign banks. According to the NBG, as at 31 December 2014 there were 21[a] commercial banks operating in Georgia. TBC competes with a number of these banks, including Bank of Georgia, Liberty Bank, ProCredit Bank, Bank Republic and VTB Georgia. Increased competition may have a negative impact on TBC's market share in deposits and loans to customers, as well as its ability to grow its deposit and loan portfolios in the future. Although TBC believes that it is well positioned to compete in the Georgian banking sector, TBC's market position may suffer if competitors deploy greater financial resources, have access to lower cost funding or are able to offer a broader suite of products than TBC. TBC may be unable to introduce new products or services ahead of its competitors or before competitors stabilise their share of new markets, or may not be as successful as its competitors in syndicating loans for demanding corporate customers. Increased competition may also have a negative impact on TBC's ability to sustain its net interest margin and fee and commission levels. Increasing competition in the banking industry has already led to and may, in the future, continue to lead to increased pricing pressures on TBC's products and services, which could have a material adverse effect on TBC's net interest income, which could, in turn, have a material adverse effect on TBC's business, financial condition and results of operations. Furthermore, there can be no assurance that TBC's current regulatory environment with respect to competition and anti monopoly matters will not be subject to significant change in the future. According to the **Competition Law** in case of an alleged breach of the law by a commercial bank, the Competition Agency would be required to refer the matter to the NBG, which would have the exclusive authority to act on the matter in such cases. Although there are currently no anti monopoly regulations in Georgia that establish market share limits for banks, there can be no assurance that such anti monopoly limitations will not be introduced in Georgia in the future. Given the current high market share maintained by TBC, the introduction of any anti monopoly restrictions may have an effect on the growth rates of TBC, restrict TBC's ability to make future acquisitions or lead to TBC being required to sell some of its assets or to exit or reduce its presence in some or all of its market segments. (a) Since the January 2015 merger of Bank Constanta, there are 20 commercial banks in the country.
TBC may not be able to maintain the quality of its loan portfolio	The quality of TBC's loan portfolio is affected by changes in the creditworthiness of its customers, their ability to repay their loans on time, TBC's ability to enforce its security interests on customers' collateral should such customers fail to repay their loans and whether the value of such collateral is sufficient to cover the full amounts of those loans. In addition, the quality of TBC's loan portfolio may deteriorate due to other reasons, including factors beyond TBC's control (such as any negative developments in Georgia's economy resulting in the financial distress or bankruptcy of TBC's customers or the unavailability or limited availability of credit information concerning certain customers) and factors dependent on TBC's management and strategy, such as a failure of TBC's risk management procedures or an expansion of TBC's loan portfolio. Although Management believes that TBC's growth plan is sustainable and aligned with overall expectations for growth in the Georgian banking sector generally, there can be no assurance that the quality of TBC's loan portfolio will not be adversely affected by the increase in TBC's loan portfolio and in its customer base. In particular, although Management considers the micro segment to be lucrative, TBC may be exposed to increased risks from growth in its micro loan portfolio due to micro customers being typically of lower financial strength than more affluent customers. In addition, the quality of TBC's loan portfolio may deteriorate due to internal factors such as failure of risk management procedures. For more information regarding the credit quality, see note 34 of Consolidated Financial Statements – *Financial and Other Risk Management*. Although TBC believes that it has created adequate provisions for loan impairment in respect of its loan portfolio, further increases in the level of Non performing Loans could require TBC to take additional provisions, which would impair TBC's capital and, if significant, could have a material adverse effect on TBC's business, financial condition, results of operations and/or prospects.

Strategic Report

Principal Risks and Uncertainties

Continued

Risk	Why we think this is important
TBC may not be able to maintain the quality of its loan portfolio (continued)	Furthermore, TBC's loan portfolio concentration in Georgia may subject it to risks of default by its largest borrowers and exposure to particular sectors of the Georgian economy. TBC's loan portfolio is exposed to certain economic sectors. A downturn in the business, financial condition, results of operations and/or prospects of TBC's largest borrowers or in the sectors to which TBC is particularly exposed may adversely affect the relevant customers' ability to repay their loans, which could, in turn, have a material adverse effect on TBC's business, financial condition, results of operations and/or prospects.
Collateral values may decline, which could adversely affect TBC's asset quality	As at 31 December 2014, TBC held collateral against its loan portfolio amounting to GEL 3,080.1 million, corresponding to 83.1% of TBC's total gross loans. The main forms of collateral taken by TBC in its lending to business entities are charges over real estate, equipment and inventory. The main form of collateral taken by TBC in its lending to individuals is a mortgage over residential property. For additional information on collateral policies, see note 9 of Consolidated Financial Statements – *Loans and Advances to Customers*. As at 31 December 2014, 60.4% of TBC's total gross loans were secured by real estate collateral. With respect to mortgage loans, TBC generally imposes a loan to value (based on a market value of the real estate used as collateral) ratio of no higher than 70% at the time the loan is advanced, although the ratio may be higher for clients with a very good risk profile. Downturns in the residential and commercial real estate markets or a general deterioration of economic conditions, such as that which occurred during 2008 and 2009, may result in illiquidity and a decline in the value of the collateral securing TBC's loans, including a decline to levels below the outstanding principal balance of those loans. In addition, declining or unstable prices of collateral in Georgia may make it difficult for TBC to accurately value collateral held by it. The value of any collateral ultimately realised by TBC will depend on the value of that collateral TBC is able to realise upon foreclosure, which may be different from the current or estimated value. If the value of the collateral held by TBC declines significantly in the future, TBC could be required to record additional provisions and could experience lower than expected recovery levels on collateralised loans that are more than 90 days past due. Further, changes to laws or regulations may impair the value of such collateral. See *"—TBC's businesses are subject to substantial regulation and oversight and future changes in regulation, fiscal or other policies are difficult to predict"*. If any of these risks materialise, they could have a material adverse effect on TBC's business, financial condition, results of operations and/or prospects.
TBC is exposed to risk resulting from the granting of foreign currency denominated loans	As at 31 December 2014, 56.1% of TBC's total assets and 63.2% of TBC's total gross loans were denominated in foreign currencies, primarily US Dollars. The majority of retail customers who have mortgage loans denominated in foreign currencies earn their income in Lari. While the income of a number of Georgian citizens is paid in US Dollars from remittances from abroad and some customers hedge their exposure to some extent through the maintenance of savings in US Dollars, customers may not be protected against the significant fluctuations of the exchange rates of the Lari against the currency of the loan. Although TBC takes steps to mitigate the risk of depreciation of the Lari against the US Dollar by, inter alia, strict management of open currency positions and by holding higher capital for foreign currency loans than for Lari denominated loans, significant depreciation of the Lari against the US Dollar or other foreign currency in which TBC's loans to customers are denominated may result in difficulties related to the repayment of such loans, which, in turn, may lead to a decrease in the quality of TBC's loan portfolio and an increase in impairment provisions for loans extended to TBC's customers, which could materially adversely affect TBC's business, financial condition, results of operations and/or prospects.
Liquidity risk is inherent in TBC's operations	While Management believes TBC currently has sufficient liquidity to meet its obligations, liquidity risk is inherent in banking operations and can be heightened by a number of factors, including an overreliance on, or an inability to access, a particular source of funding, changes in credit ratings or market wide phenomena, such as, for example, financial market instability like that experienced in the recent global financial crisis. Credit markets worldwide have experienced during recent years, and may continue to experience, a reduction in liquidity and term funding as a result of global economic and financial factors. The availability of credit to companies in emerging markets in particular is significantly influenced by the level of investor confidence and, as such, any factors that affect investor confidence (for example, a downgrade in credit ratings, central bank or state interventions or debt restructurings in a relevant industry) could affect the price or availability of funding for companies operating in any of these markets. For example, as the central banks in key economies such as the United States and United Kingdom begin to reduce the scale of their financial crisis bond and other asset purchases, liquidity is expected to tighten, particularly in emerging markets. Although TBC has not defaulted on its indebtedness in the past and believes that it will be able to make required

Risk	Why we think this is important
Liquidity risk is inherent in TBC's operations (continued)	payments in respect of its indebtedness in the future, if it is unable to generate sufficient cash flow or otherwise obtain funds necessary to make such payments, it may be forced to default, following which TBC's creditors would be entitled to accelerate the maturity of such indebtedness. This could cause cross defaults under, and potential acceleration of, certain of TBC's other indebtedness which could, in turn, have a material adverse effect on TBC's business, financial condition, results of operations and/or prospects. For an analysis of the maturity profile of TBC's financing arrangements, see the *Risk Management chapter.* TBC believes that it has adequate liquidity to withstand significant withdrawals of customer deposits based on scenarios calculated from historic data including the levels of withdrawals seen during the 2008 Conflict (as defined below). However, the unexpected and rapid withdrawal of a substantial amount of deposits could have a material adverse effect on TBC's business, financial condition, results of operations and/or prospects. Circumstances in which clients are more likely to withdraw deposits rapidly in large volumes include, amongst others, circumstances beyond TBC's control. Furthermore, the lack of a mandatory deposit insurance scheme in Georgia may exacerbate bank runs during times of financial instability.
TBC is subject to operational risk inherent to its business activities	TBC is exposed to operational risk. Operational risk is the risk of loss resulting from inadequacy or failure of internal processes or systems or from external events. This includes the risk of loss due to employees' lack of knowledge or wilful violation of laws, rules and regulations or other misconduct. Misconduct by employees, the improper use or disclosure of confidential information, violation of laws and regulations concerning financial abuse and money laundering, or embezzlement and fraud, any of which could result in regulatory sanctions or fines as well as serious reputational or financial harm. Misconduct by employees, including violation of TBC's own internal risk management policies, could also include binding TBC to transactions that exceed authorised limits or present unacceptable risks, or hiding unauthorised or unsuccessful activities, which, in either case, may result in unknown and unmanaged risks and losses. In addition, in the ordinary course of its business TBC processes a number of transactions manually, which may further increase the risk that human error or employee tampering or manipulation will result in losses that may be difficult to detect. Although TBC has back up systems in place, including central databases, core files and registry settings and central data storages, any failure or interruption in, or breach of security of, TBC's information technology systems could result in failures or interruptions in TBC's risk management, deposit servicing or loan origination systems or errors in its accounting books and records. If temporary shutdown or failure of TBC's information systems occur TBC might be unable to serve some customers' needs on a timely basis and might lose their business. No assurance can be given that such failures or interruptions will not occur or that TBC will adequately address them if they do occur. Accordingly, the occurrence of any failures or interruptions and any failure to properly implement any systems could have a material adverse effect on TBC's business, financial condition, results of operations and/or prospects.
TBC's risk management strategies and techniques may leave it exposed to unidentified or unanticipated risks	Although TBC invests substantial time and effort in the development, implementation and monitoring of its risk management strategies and techniques (see *"Asset, Liability and Risk Management"*), it may nevertheless fail to adequately manage risks under certain circumstances, particularly when it is confronted with risks that it has not identified or anticipated. If circumstances arise that TBC has not identified or included those in its statistical models, its losses could be greater than expected. If its measures to assess and mitigate risk prove insufficient, or if its models yield inaccurate results or incorrect valuations, TBC may experience material unexpected losses. For example, losses relating to credit risk may arise if the risk management policies, procedures and assessment methods implemented by TBC to mitigate credit risk and to protect against credit losses prove less effective than expected. TBC employs qualitative tools and metrics for managing risk that are based on observed historical market behaviour. These tools and metrics may fail to predict future risk exposures, especially in periods of increased volatility or falling valuations or in periods in which there is a rapid expansion of TBC's loan portfolio. Even though TBC requires regular financial disclosure by its corporate customers, some of them may not have extensive or externally verified credit histories, and their accounts may not be audited by a reputable external auditor. Furthermore, lending to SME, micro and retail customers carries with it greater credit risk exposure. These customers typically have less financial strength than large companies, and there is often less credit history available for such clients.

Strategic Report

Principal Risks and Uncertainties

continued

Risk	Why we think this is important
TBC's risk management strategies and techniques may leave it exposed to unidentified or unanticipated risks (continued)	Therefore, notwithstanding TBC's credit risk evaluation procedures, TBC may be unable to correctly evaluate the current financial condition of each prospective borrower and to determine accurately the ability of such customer to repay its loans when due. In addition, any failure to control fraud in TBC's retail lending portfolio could erode margins and could negatively affect TBC's financial condition. Accordingly, the risk management systems employed by TBC may prove insufficient in measuring and managing risks and this may have a material adverse effect on TBC's business, financial condition, results of operations and/or prospects.
TBC is subject to financial covenants in its debt agreements that are broader than applicable regulatory requirements, the breach of which may cause TBC to be in default under those agreements	Most loans entered into between TBC and EBRD, FMO and IFC (together, IFI Investors) are subject to the financial covenants set forth in the Common Terms Agreement and TBC is also party to other loan agreements that also contain financial covenants. The financial covenants in the Common Terms Agreement require TBC, in certain instances, to meet different thresholds than are required under applicable Georgian banking regulations or to comply with additional financial metrics, such as loan to deposit ratios, net stable funding ratios or and other ratios governing overdue and non performing loans, which may either not be regulated by the NBG or not measured in the same manner. Whilst TBC believes that it adequately manages its compliance with all applicable financial covenants and is not at particular risk of breaching any of these, a failure by TBC to comply with these covenants in the future may constitute a default under the relevant agreements and could cause cross defaults under, and potential acceleration of, certain of TBC's other indebtedness which could, in turn, materially adversely affect TBC's business, financial condition, results of operations and/or prospects.
Capital adequacy and regulatory ratios may constrain TBC's profitability and/or growth	TBC is required by the NBG, and the terms of various of its funding and other arrangements, to comply with certain capital adequacy ratios and other ratios. The capital adequacy regime in Georgia and globally has been subject to significant change in recent years TBC's ability to maintain its ratios could be affected by a number of factors, including: • an increase of TBC's risk weighted assets; • TBC's ability to raise capital; • losses resulting from a deterioration in TBC's asset quality, a reduction in income levels, an increase in expenses or a combination of all of the above; • a decline in the values of TBC's securities portfolio; • changes in accounting rules or in the guidelines regarding the calculation of the capital adequacy ratios; and • increases in minimum capital adequacy ratios imposed by the NBG. Although Management believes that TBC currently has adequate capital, TBC may need to raise additional capital in the future. TBC's ability to raise capital may be limited by numerous factors, including general economic and financial conditions, the availability of funding in the capital markets generally or from TBC's shareholders, investor confidence, sentiment towards the Georgian economy and the credit rating and financial condition, performance and/or prospects of TBC. There can be no assurance that it will be able to obtain such capital on favourable terms, in a timely manner or at all. Any failure to raise additional capital in the future (whether on favourable terms or at all) may restrict TBC's growth plans including its ability to grow its loan portfolio. In October 2013, the NBG introduced its new NBG version of the Basel II/III capital adequacy regulations. Georgian banks will be required to comply with this regulation beginning in June 2014. According to these new regulations, TBC is required to maintain a ratio of total regulatory capital to risk weighted assets at 10.5% or more calculated in accordance with the new regulations. In connection with the final version of its Basel II/III regulation, the NBG disclosed that it plans to introduce additional capital buffers. In order to reduce the uncertainty regarding minimum capital buffers, TBC received a non binding letter from the NBG dated 28 February 2014, requesting that TBC implement a buffer of 3% over any minimum in the current NBG total capital requirements as calculated in accordance with both current NBG and NBG Basel Pillar 1 guidelines. The NBG emphasised in this letter that it will be consistent in its regulatory approach across banks (including with respect to capital buffers), and Management accordingly believes that the NBG's approach to capital would be applied to all Georgian banks over which the NBG exercises regulatory oversight. For further information, see the *Risk Management* chapter. If in the future the NBG imposes more stringent prudential regulations concerning capital adequacy in order to meet the requirements of Basel II or Basel III, or for any other reason, there can be no assurance that TBC will be able to comply with these regulations if and when these become applicable to it.

Risk	Why we think this is important
Capital adequacy and regulatory ratios may constrain TBC's profitability and/or growth (continued)	Any breach of the NBG's regulatory requirements relating to the minimum capital adequacy and other regulatory ratios may result in TBC breaching the covenants in its financing and other arrangements and TBC Bank or other entities in the TBC group being subject to administrative sanctions, which may result in an increase in the operating costs of TBC and/or, loss of reputation, or, in extreme cases, the revocation of TBC Bank's general banking license, which would result in its inability to perform any banking operations and its liquidation. Any of these events could have a material adverse effect on TBC's business, financial condition, results of operations and/or prospects.
TBC's businesses are subject to substantial regulation and oversight and future changes in regulation, fiscal or other policies are difficult to predict	TBC's banking operations in Georgia are required to comply with Georgian banking regulations. In addition to mandatory capital adequacy ratios, the NBG sets lending limits and other economic ratios for banks in Georgia. Under Georgian banking regulations, TBC Bank is required to, among other things, comply with minimum reserve requirements and mandatory financial ratios and regularly file periodic reports. In addition to its banking operations, TBC also provides other regulated financial services and offers financing products, including brokerage services that are subject to governmental supervision. Furthermore, if regulations change or if TBC expands its businesses, TBC may become subject to additional rules and regulations at a national, international or supranational level, which may impact TBC's operations. *See "—Capital adequacy and regulatory ratios may constrain TBC's profitability and/or growth"*. Future changes in regulation, fiscal or other policies are unpredictable and there is often a delay between the announcement of a change and the publication of details of such change. Moreover, any such change is outside the control of TBC. For example, the NBG has indicated that it is considering introducing a new liquidity framework in Georgia but has yet to confirm the details or timing for the implementation of such liquidity framework. NBG has also disclosed several draft regulations including changes in provisioning methodology and Basel III Pillar 2 guidance. Although TBC closely monitors regulatory developments, there can be no assurance that the current regulatory environment in which TBC operates will not be subject to significant change in the future, including as a result of a change in government in Georgia, or that TBC will be able to comply with any or all resulting regulations. See *"—Risks Relating to Georgia—The risk of political instability in Georgia could have a material adverse effect on TBC's business"*.
TBC's measures to prevent money laundering may not be effective in all material respects	Despite recent success in improving transparency within Georgia and its economy, less developed legislation and insufficient administrative guidance on the interpretation of such legislation increase the risk of Georgia's financial institutions being used as vehicles for money laundering. TBC has implemented measures aimed at preventing any member of TBC from being used as a vehicle for money laundering, including "know your customer" policies and the adoption of anti money laundering and compliance procedures in all its branches, in compliance with the Georgian Law on Facilitating the Prevention of Illicit Income Legalisation (the **AML Law**). Whilst as of the date of this report, no TBC group company has been accused, named or cited in connection with any occurrences of money laundering, financing of terrorist activity, fraud, or other corrupt or illegal purpose transactions or breaches of Georgian laws prohibiting such activities, there can be no assurance that attempts to launder money through TBC will not be made or that TBC's anti money laundering measures will be effective in all material respects. Although TBC has never been associated with money laundering and does not expect such associations in the future, any such association as a result of any failure or insufficiency of its anti money laundering procedures, or if it were unable to comply with all of the relevant laws regarding financial assistance or money laundering, could subject TBC to significant fines as well as harm to its reputation, which could, in turn, have a material adverse effect on TBC's business, financial condition, results of operations and/or prospects.
TBC and Georgia may not be able to maintain their credit ratings	On 21 June 2012, Fitch Ratings upgraded TBC Bank's Long term Issuer Default Rating from 'B+' to 'BB–', with a Stable Outlook. The upgrade was driven by TBC Bank's increased standalone financial strength. At the same time, the agency upgraded TBC Bank's Viability Rating from 'B+' to 'BB–'. According to Fitch, the upgrade of TBC Bank's Viability Rating reflects TBC's high levels of capital and liquidity. The agency also considers that there have been significant positive improvements in the quality of governance and risk management. Fitch affirmed TBC Bank's rating and outlook in November 2014. In January 2015 Moody's affirmed TBC Bank's foreign currency deposit rating at B1/NP and their local currency deposit rating at Ba3/NP. At the same time, Moody's affirmed TBC Bank's baseline credit assessments at Ba3. On 22 November 2011 Standard & Poor's raised Georgia's long-term foreign and local currency ratings from "B+" to"BB–" and, on 15 December 2012, Fitch upgraded Georgia's sovereign long-term issuer default ratings from "B+" to "BB–".

Principal Risks and Uncertainties

Continued

Risk	Why we think this is important
TBC and Georgia may not be able to maintain their credit ratings (continued)	There can be no assurance that TBC Bank or Georgia will be able to maintain these credit ratings, and any deterioration in the general economic environment or TBC's financial condition could cause downgrades which could adversely affect TBC's liquidity and competitive position, undermine confidence in TBC, increase its borrowing costs and limit its access to capital markets.

Risks Relating to Georgia

Emerging markets such as Georgia are generally subject to greater risks	Investing in securities involving emerging markets, such as Georgia, involves a higher degree of risk than investments in securities of corporate or sovereign issuers of more developed markets. These higher risks include, but are not limited to, higher volatility, limited liquidity, a narrow export base, current account and budget deficits and changes in the political, economic, social, legal and regulatory environment. Emerging economies, such as the Georgian economy, are subject to rapid change and are vulnerable to market conditions and economic downturns elsewhere in the world. Risks may be compounded by incomplete, unreliable or unavailable economic and statistical data on Georgia as the information may become outdated relatively quickly. Emerging markets may also experience more instances of corruption of government officials and misuse of public funds than more mature markets. In addition, international investors' reactions to events occurring in one emerging market country or region sometimes appear to demonstrate a "contagion" effect, in which an entire region or class of investment is disfavoured by such investors. Georgia has been adversely affected by "contagion" effects in the past, including following the August 1998 Russian financial crisis and the more recent global financial crisis. No assurance can be given that it will not be affected by similar effects in the future, including the recent volatility in the Ukraine and elsewhere.
Regional tensions could have a material adverse effect on the Georgian economy	Since the restoration of its independence in 1991, Georgia has had ongoing disputes in the Abkhazia and the Tskhinvali Region/South Ossetia regions and with Russia. These disputes have led to sporadic violence and breaches of peace keeping operations. In September 2013, Russian troops, assisted by the South Ossetian authorities, began moving the de facto border between Georgia and its breakaway region of South Ossetia further into Georgian controlled territory. The action increased tension between the countries and drew international criticism. Further movement of the border has been suspended following diplomatic efforts, but there is no assurance that such actions will not resume which could, in turn, further increase tensions. On 24 November 2014 Abkhazia signed a treaty with Russia that encompasses greater military and economic cooperation between the parties. The agreement allows Russia to position its military forces in Abkhazia and provides for a potential membership for the small de facto state into the Eurasian Economic Union, Russia's alliance with Belarus, Kazakhstan and Armenia. Geopolitical tensions between Ukraine and Russia may also have an adverse impact on the Georgian economy and on TBC's business despite the diversification of Georgia's economy, which has led to limited Georgian trade reliance on either Ukraine or Russia (including with respect to Russian energy imports) in recent years. The political instability of Ukraine, including any potential split of the country along regional and ethnic lines, as well as any prolonging or further escalation of the conflict between Russia and Ukraine, a significant decline in the Russian economy due to the sanctions or wider uncertainty and/or the increased level of regional, political and economic instability may have a significant and adverse impact on the neighbouring countries, including Georgia, including decreases in tourism, foreign investment and consumer confidence. Russia has indicated that it views the eastward expansion of North Atlantic Treaty Organization (**NATO**), potentially including ex Soviet republics, such as Georgia, as hostile. Any worsening of relations between Ukraine and Russia, any future deterioration or worsening of Georgia's relationship with Russia, including as a result of major changes in Georgia's relations with Western governments and institutions (particularly regarding national security), changes in Georgia's importance to Western energy supplies, changes in the amount of aid granted to Georgia or the ability of Georgian manufacturers to access world export markets, may have a negative effect on the political or economic stability of Georgia, which could, in turn, have a material adverse effect on TBC's business, financial condition, results of operations and/or prospects, as well as the trading price of the GDRs. Furthermore, the economy of Georgia is dependent on the economies of other countries within the region, including Azerbaijan and Armenia. Any economic

Risk	Why we think this is important
Regional tensions could have a material adverse effect on the Georgian economy (continued)	disruptions or crises in Georgia's neighbouring markets or significant deteriorations in relations between neighbouring countries may have a material adverse effect on Georgia's economy. Any changes in the ability of Georgian manufacturers to access world export markets may have a negative effect on the economic stability of Georgia, which, in turn, could have a material adverse effect on TBC's business, financial condition, results of operations and/or prospects, as well as the trading price of the GDRs.
Economic instability in Georgia could have a material adverse effect on TBC's business	Because TBC operates primarily in Georgia, its business, financial condition and results of operations are, and will continue to be, highly dependent on the general economic conditions in Georgia. Since the dissolution of the Soviet Union in the early 1990s, Georgia's society and economy have undergone a rapid transformation from a one party state with a centrally planned economy to a pluralist democracy with a market economy. By the end of the year, GEL depreciated against USD by 7%. Annual inflation was down by 0.4pp YoY to 2% in 2014. GDP growth rate at 1.8% in Q4, 2014. Increase of MPR by 0.5pp to 4.5% in February, 2015. After relatively decreased levels of FDI in 2nd quarter of 2014, there was an almost 237% increase QoQ in FDI inflows in Q3 of 2014. FDI decreased by 31% in Q4, however the volume of FDI attracted in each of these quarters was the highest achieved in the respective quarters since 2008. The major constituent in the rapid growth was a significant inflow of Chinese investments in the 3rd quarter of 2014. The outflow of UK and other countries' investments in Q2 was also replaced by significant increases. During 2014, the largest share of FDIs was allocated in the transport and communication field, reaching USD 343 million. This was followed by the construction sector which saw USD 295 million in investments. The next largest industries to attract investments were manufacturing (USD 174 million), energy (USD 99 million), real estate (USD 87 million), financial (USD 78 million), hotels and restaurants (USD 40 million), and agriculture (USD 19 million). As a result of the decrease in net FDI inflows beginning in the second half of 2008, in recent years, the current account deficit has been financed, in part, by increased borrowing. A significant increase in the current account deficit, if not accompanied by a recovery in net FDI inflows, may result in a further increase in the levels of Government borrowing to finance the current account deficit, a revaluation of the Lari or a reduction in imports, any of which could materially adversely affect the Georgian economy. Nowadays, the Georgian economy is highly dollarised with foreign currency deposits over total deposits across the sector standing at 60.1% as at 31 December 2014. The rate stood at 59.9% as at 31 December 2013 and 64.1% as at 31 December 2012. Although the NBG has adopted measures to support the development of Georgia's domestic money markets, the dollarisation rate could adversely impact the effectiveness of the implementation of the NBG's monetary and exchange rate policies. The ability of the Government and the NBG to limit any volatility of the Lari will depend on a number of political and economic factors, including the NBG's and the Government's ability to control inflation, the availability of foreign currency reserves and FDI inflows, and any failure to do so or a major depreciation or further devaluation of the Lari could adversely affect Georgia's economy. According to estimates provided by Geostat, annual inflation in Georgia, as measured by the end of period consumer price index (CPI), was 2.0% in 2011, (1.4)% in 2012, 2.4% in 2013 and 2.0% in 2014. Although the CPI in Georgia has been subject to mild inflation to deflation in recent years, there is no assurance that this will remain so. If the Georgian economy were to suffer from high and sustained inflation in future periods, there would be an increased risk of market instability, a financial crisis, a reduction in consumer purchasing power and erosion of consumer confidence. A material depreciation of the Lari relative to the US Dollar or the Euro, changes in monetary policy, inflation, market instability, a financial crisis, a reduction in consumer purchasing power and erosion of consumer confidence could each lead to deterioration in the performance of Georgia's economy, which could, in turn, have a material adverse effect on TBC's business, financial condition, results of operations and/or prospects, as well as the trading price of the GDRs.

Strategic Report

Principal Risks and Uncertainties

Continued

Risk	Why we think this is important
The risk of political instability in Georgia could have a material adverse effect on TBC's business	Since the restoration of its independence in 1991, Georgia has undergone a substantial political transformation from a constituent republic in a federal socialist state to an independent sovereign democracy. Political conditions in Georgia were highly volatile in the 1990s and in the early part of the 2000s. In the presidential elections held on 27 October 2013, Giorgi Margvelashvili, candidate of the governing Georgian Dream coalition was elected president. In the Georgian parliamentary elections held on 1 October 2012, the then oppositional Georgian Dream coalition led by Bidzina Ivanishvili won a majority of seats Following the parliamentary elections, Ivanishvili was elected as the Prime Minister by the Georgian parliament In November 2013 Ivanishvili stepped down and he was succeeded by Irakli Gharibashvili, his close ally and a member of the Georgian dream coalition. The next parliamentary election is scheduled to be held in 2016. The Georgian Dream coalition is generally seen to be business and investor friendly and to date has remained committed in principle to major economic and fiscal policies designed to liberalise the Georgian economy. At the same time, however, various legislative initiatives discussed in the Georgian parliament have been subject to criticism by the business community, including the imposition of a moratorium on foreclosures and the moratorium imposed on foreign ownership of agricultural land, as well as more complicated visa policies for foreign visitors. Furthermore, implementation of Government strategy may result in various changes in the regulatory environment of TBC, which may have negative effect on TBC's business, financial condition and/or prospects. While Georgia has introduced policies oriented towards the acceleration of political and economic reforms, there can be no assurance that current Government policies or economic or regulatory reforms will continue at the same pace or at all. There can be no assurance that the Government will be able to maintain political and civil stability or that reform and economic growth will not be hindered as a result of any such events. Any of the events referred to above could have negative effects on the economy in Georgia, which could, in turn, have a material adverse effect on TBC's business, financial condition, results of operations and/or prospects, as well as the trading price of the GDRs.
Lack of growth in the currency market could have a material adverse effect on TBC's business	Although the Lari is a fully convertible currency, there is generally no market outside Georgia for the exchange of Lari. A market exists within Georgia for the conversion of Lari into other currencies, but it is limited in size. According to the NBG, in 2012, the total volume of trading by commercial banks in the Lari/US Dollar and Lari/Euro markets (excluding activities of the NBG) amounted to US Dollar 13 billion and EUR 4 billion, respectively. The exchange rate of the Lari against the US Dollar is fixed in the Foreign Exchange Auction between commercial banks, which is used to determine the official exchange rate of the Lari against foreign currencies. According to the NBG, it had US Dollar 2.7 billion in gold and foreign currency reserves as at 31 December 2014. Whilst it is widely believed that these reserves will be sufficient to sustain the domestic currency market in the short term, there can be no assurance that a relatively stable market will continue indefinitely. A lack of growth of this currency market may hamper the development of TBC's business and the businesses of its corporate clients, which could, in turn, have a material adverse effect on TBC's business, financial condition, results of operations and/or prospects, as well as the trading price of the GDRs
Weaknesses relating to the Georgian legal system and legislation create an uncertain environment for investment and business activity in Georgia	Georgia is still developing an adequate legal framework required for the proper functioning of a market economy. Several fundamental Georgian civil, criminal, tax, administrative and commercial laws are frequently amended. The recent nature of much of Georgian legislation and the rapid evolution of the Georgian legal system place the quality and the enforceability of laws in doubt and result in ambiguities and inconsistencies in their application. In addition, the court system is understaffed and has been undergoing significant reforms. Judges and courts in Georgia are generally less experienced in the area of business and corporate law than judges and courts in certain other countries, particularly the United States and EU countries. Most court decisions are not easily available to the general public. The uncertainties of the Georgian judicial system could have a negative effect on overall economic conditions in Georgia, which could, in turn, have a material adverse effect on TBC's business, financial condition, results of operations and/or prospects, as well as on the trading price of the GDRs. Furthermore, State authorities have a high degree of discretion in Georgia and at times may exercise their discretion arbitrarily. Such arbitrary or discriminatory State action, if directed at any member of TBC, could have a material adverse effect on TBC's business, financial condition, results of operations and/or prospects, as well as the trading price of the GDRs.

Risk	Why we think this is important
The uncertainties of the Georgian tax system could have a material adverse effect of TBC's business	In Georgia, tax laws have not been in force for significant periods of time compared to more developed market economies, and often result in unclear or non existent implementing regulations. Moreover, such tax laws are subject to frequent changes and amendments, which can result in unusual complexities for the Issuer and its business generally. Under the Georgian tax code which came into force in January 2005 (the 2005 Tax Code), replacing the tax code which came into force in 1997, the number of taxes has been reduced from 22 to seven and the administrative procedures simplified. In order to make the tax reform revenue neutral, however, the tax base was broadened by eliminating many existing tax exemptions, excise tax rates were increased and tax collection efforts were strengthened. Whilst the VAT rate was reduced to 18% under the 2005 Tax Code, VAT exemptions were reduced to a minimum. The corporate profit tax rate was reduced to 15%, whilst the individual income tax rate, which is a flat tax, was reduced to 20%. This tax rate is generally lower than the tax rate applicable to other banks operating in more developed Western countries. A new tax code was adopted in Georgia on 17 September 2010 and came into effect on 1 January 2011 (the "2011 Tax Code"). In 2011, the Georgian parliament adopted a law on economic liberty prohibiting the introduction of new state wide taxes or increases in the existing tax rates (except excise) without a public referendum initiated by the Government (except in certain limited circumstances). This law became effective on 31 December 2013. Any significant increase in the rate of corporate income tax in Georgia could have a material adverse effect on TBC's business, financial condition, results of operations and/or prospects, as well as on the trading price of the GDRs. Differing opinions regarding the interpretation of various provisions of tax legislation is creating uncertainties, inconsistencies and areas of conflict. While Management believes that each member of TBC is currently in compliance with the tax laws affecting its operations, there can be no assurance that the relevant authorities will not take differing positions with regard to interpretative issues, which may result in one or more members of TBC facing tax adjustments or fines changes in the tax laws or governmental tax policies may have a material adverse effect on TBC's business, financial condition, results of operations and/or prospects. In addition, Georgia faces considerable difficulties in ensuring the impartiality of its court system with respect to tax claims, especially when large amounts are being contested by tax payers. Although certain steps are being taken to remedy the current situation, there can be no assurance that such practices will not continue in the future, which could have a material adverse effect on TBC's business, financial condition, results of operations and/or prospects, as well as the trading price of the GDRs.

Strategic Report

Financial Review

TBC Bank closed the year with a record profit of GEL 158.5 million, up 27.5% YoY, and 18.4% return on average equity (ROAE).

Results overview 4Q and FY 2014

Income Statement Highlights

in thousands of GEL	FY 2014	FY 2013	Change	4Q'14	3Q'14	4Q'13	Change YoY	Change QoQ
Net interest income	338,648	282,650	19.8%	92,276	85,351	75,985	21.4%	8.1%
Net fee and commission income	58,682	50,061	17.2%	17,620	15,393	15,284	15.3%	14.5%
Other operating non-interest income	61,004	48,741	25.2%	22,416	13,539	13,014	72.2%	65.6%
Provisioning charges	(49,104)	(42,906)	14.4%	(18,652)	(5,361)	(10,912)	70.9%	247.9%
Operating income after provisions for impairment	409,229	338,546	20.9%	113,659	108,923	93,372	21.7%	4.3%
Operating expenses	(226,310)	(198,613)	13.9%	(67,694)	(56,321)	(55,819)	21.3%	20.2%
Profit before tax	182,919	139,933	30.7%	45,965	52,602	37,553	22.4%	-12.6%
Income tax expense	(24,468)	(15,663)	56.2%	(5,940)	(7,028)	(2,147)	176.7%	-15.5%
Profit for the period	158,451	124,270	27.5%	40,026	45,574	35,406	13.0%	-12.2%

Balance Sheet and Capital Highlights

	31-Dec-14		30-Sep-14		Change	31-Dec-13		Change
In millions of GEL	GEL	USD	GEL	USD	QoQ	GEL	USD	YoY
Total assets	5,423.5	2,910.2	5,043.6	2,878.1	7.5%	4,451.1	2,563.5	21.8%
Gross loans	3,706.3	1,988.8	3,230.2	1,843.3	14.7%	2,958.6	1,704.0	25.3%
Customer deposits	3,322.4	1,782.8	3,002.8	1,713.5	10.6%	2,886.9	1,662.7	15.1%
Total equity	1,019.5	547.0	974.7	556.2	4.6%	729.3	420.0	39.8%
Basel I tier 1 capital	967.5	519.2	926.1	528.5	4.5%	675.7	389.2	43.2%
Basel I risk weighted assets	3,910.8	2,098.5	3,456.3	1,972.3	13.2%	3,135.5	1,805.9	24.7%
Basel II/III Tier 1 capital	783.4	420.3	743.6	424.3	5.3%	526.2	303.1	48.9%
Basel II/III risk weighted assets	6,296.7	3,378.8	5,486.8	3,131.0	14.8%	4,901.0	2,822.7	28.5%

Key Ratios

	FY 2014	FY 2013	Change YoY	4Q'14	3Q'14	4Q'13	Change YoY	Change QoQ
ROAE	18.4%	18.7%	-0.2pp	16.0%	19.2%	19.8%	-3.8pp	-3.2pp
ROAA	3.3%	3.1%	0.2pp	3.1%	3.7%	3.4%	-0.3pp	-0.6pp
Pre-provision ROAE	24.2%	25.3%	-1.1pp	23.5%	21.4%	26.0%	-2.5pp	2.0pp
Cost to income	49.4%	52.1%	-2.7pp	51.2%	49.3%	53.5%	-2.4pp	1.9pp
Cost of risk	1.6%	1.3%	0.3pp	1.9%	0.7%	1.3%	0.6pp	1.2pp
NPL to gross loans	0.5%	1.1%	-0.5pp	0.5%	0.9%	1.1%	-0.5pp	-0.4pp
Basel I total CAR	30.4%	28.6%	1.7pp	30.4%	33.0%	28.6%	1.7pp	-2.6pp
Basel II/III total CAR	15.0%	14.4%	0.7pp	15.0%	16.7%	14.4%	0.7pp	-1.6pp
Leverage (times)	5.3	6.1	-0.8	5.3	5.2	6.1	-0.8	0.1

Income Statement Discussion

Net Interest Income

in thousands of GEL	FY 2014	FY 2013	Change	4Q'14	3Q'14	4Q'13	Change YoY	Change QoQ
Loans and advances to customers	465,520	433,968	7.3%	124,022	116,506	110,908	11.8%	6.5%
Investment securities available for sale	30,361	30,442	-0.3%	7,676	7,951	7,118	7.8%	-3.5%
Due from other banks	6,211	3,030	105.0%	1,949	1,563	442	341.2%	24.7%
Investments in leases	10,265	7,356	39.6%	3,133	2,566	2,242	39.7%	22.1%
Interest income	512,357	474,796	7.9%	136,780	128,585	120,710	13.3%	6.4%
Customer accounts	110,041	139,913	-21.4%	28,075	27,154	30,838	-9.0%	3.4%
Due to credit institutions	43,384	38,645	12.3%	10,771	10,782	10,692	0.7%	-0.1%
Subordinated debt	19,069	13,182	44.7%	5,136	4,965	3,044	68.8%	3.4%
Debt Securities in issue	928	237	292.2%	436	259	87	401.8%	68.3%
Other	287	169	69.8%	86	73	64	33.9%	17.6%
Interest expense	173,709	192,146	-9.6%	44,505	43,234	44,725	-0.5%	2.9%
Net interest income	338,648	282,650	19.8%	92,276	85,351	75,985	21.4%	8.1%
Net interest margin	8.5%	8.4%	0.1pp	8.5%	8.3%	8.5%	-0.1pp	0.2pp

2014 to 2013 Comparison
Net interest income increased by 19.8% to GEL 338.6 million, compared to 2013, driven by 7.9% higher interest income and 9.6% lower interest expense.

The 7.9% YoY increase in interest income to GEL 512.4 million in 2014 was mainly due to the increase in interest income from loans to customers, primarily related to the average gross loan portfolio increase by 19.6% YoY, which more than offset the decline in loan yields over the same period from 16.6% to 14.9%, aligned with declining interest rates in the country. The second largest increase in interest income in absolute terms came from interest income from due from other banks, primarily due to an increase in the size of the respective average portfolio as well as the increased yields on such placements. Yields on average interest earning assets decreased by 1.3pp to 12.8%, compared to 14.1% in 2013.

Interest expense decreased by 9.6% YoY to GEL 173.7 million in 2014, mainly due to lower interest expense on customer accounts. The latter decreased primarily due to the lower cost of client deposits at 3.7% (2013: 5.5%), which resulted from the management's efforts to optimise the cost of funding in response to the general market trend of declining interest rates on deposits in Georgia. Consequently, the reduction in the cost of client deposits more than offset the 15.2% increase in the average customer deposit portfolio. As a result of reduced interest rates on clients' deposits and other borrowed funds (6.9% in 2014 compared to 7.6% in 2013), the Bank's cost of funding ratio declined by 1.3pp to 4.6% in 2014, compared to 5.9% in 2013.

Consequently, NIM was 8.5% in 2014, compared to 8.4% in 2013. Due to the one-off interest income from one of the corporate loans, our interest income increased in 1Q 2014 by GEL 2.3 million. Without this one-off effect, 2014 NIM would have been unchanged on 2013 at 8.4%.

4Q 2014 and 4Q 2013 Comparison
In 4Q 2014, net interest income increased by 21.4% to GEL 92.3 million, compared to 4Q 2013, driven by 13.3% higher interest income and 0.5% lower interest expense.

The interest income increase of GEL 16.1 million, or 13.3%, to GEL 136.8 million in 4Q 2014 was mainly due to the increase in interest income from loans to customers, primarily related to the average gross loan portfolio increase by 25.1% YoY, which more than offset the decline in loan yields over the same period from 16.0% to 14.3%, aligned with the declining interest rates in the country that were mentioned above. This more than offset the increase in average rates on due from other banks and investment securities available for sale. As a result, yields on average interest earning assets decreased to 12.6% from 13.6% in 4Q 2013.

Strategic Report
Financial Review
Continued

The slight YoY decrease in interest expense by GEL 0.2 million, or 0.5%, was primarily driven by the reduced interest expense on customer deposits by GEL 2.8 million, or 9.0%, which mainly resulted from the reduction in the cost of client deposits by 1.0pp to 3.5% in 4Q 2014 (4Q 2013: 4.5%). The reduced deposit rates more than offset the increase in the average customer deposit portfolio by 17.9% YoY. The decrease in interest expense on customer deposits was partially offset by an increase in interest expense on subordinated debt by GEL 2.1 million, mainly due to the increase in the rates on subordinated loans.

As a result, NIM was broadly flat in 4Q 2014 compared to the same quarter of the previous year at 8.5%.

4Q 2014 and 3Q 2014 Comparison
On a QoQ basis, net interest income increased by 8.1% as a result of 6.4% higher interest income and 2.9% higher interest expense.

The GEL 8.2 million, or 6.4%, QoQ increase in interest income mainly resulted from the increase in interest income on loans, which in turn was due to the 10.7% QoQ increase in the average gross loan portfolio and which was partially offset by 0.6pp QoQ decrease in average loan yields. The increase in interest income was also driven by an increase in interest income from investments in leases, which resulted from the 14.7% QoQ increase in the respective average portfolio and the increase in its yields by 1.6pp to 25.8%. Yields on average interest earning assets increased by 0.1pp in 4Q 2014, compared to the previous quarter.

The GEL 1.3 million, or 2.9% QoQ, increase in interest expense was due to the increase in interest expense on customer accounts by GEL 0.9 million, or 3.4%, mainly due to the 7.0% QoQ increase in the average customer deposits portfolio. The increase in interest expense was also due to the increase in interest expense from debt securities in issue and subordinated debt, which resulted from the exchange rate effect and the increased interest rate on subordinated debt. As a result, the cost of funding reduced by 0.1pp QoQ.

On a QoQ basis, NIM increased by 0.2pp.

Reclassification of income from Other Operating Income to Fee and Commission Income
The bank has reclassified operating income of its subsidiaries TBC Pay and UFC from Other Operating Income to Fee and Commission Income. The following table gives appropriate details of the adjustment.

in thousands of GEL	Financial statement line item	As previously reported	As reclassified
2013 Year	**Fee and Commission Income**		
	Fee and commission income from settlement	11,856	18,543
	Fee and commission income from card operations	31,834	33,012
	Other Operating Income		
	Revenues from cash-in terminal services	7,446	759
	Other operating income	4,576	3,398
Q3 2014	**Fee and Commission Income**		
	Fee and commission income from settlement	5,738	6,108
	Fee and commission income from card operations	7,009	9,121
	Other Operating Income		
	Revenues from cash-in terminal services	579	210
	Other operating income	2,592	479
Q4 2013	**Fee and Commission Income**		
	Fee and commission income from settlement	4,963	5,335
	Fee and commission income from card operations	7,174	9,132
	Other Operating Income		
	Revenues from cash-in terminal services	523	152
	Other operating income	3,448	1,491

Fee and Commission Income

in thousands of GEL	FY 2014	FY 2013	Change	4Q'14	3Q'14	4Q'13	Change YoY	Change QoQ
Card operations	**35,247**	33,012	6.8%	**10,723**	9,121	9,132	17.4%	17.6%
Settlement transactions	**23,893**	18,543	28.9%	**6,653**	6,108	5,335	24.7%	8.9%
Guarantees issued	**9,140**	6,271	45.7%	**2,665**	2,114	1,060	151.4%	26.1%
Issuance of letters of credit	**6,889**	6,769	1.8%	**1,954**	1,729	1,939	0.8%	13.0%
Cash transactions	**6,507**	5,040	29.1%	**2,121**	1,845	1,440	47.3%	15.0%
Foreign exchange operations	**1,169**	1,550	-24.6%	**308**	279	419	-26.5%	10.3%
Other	**5,359**	3,177	68.7%	**1,773**	1,425	1,005	76.4%	24.4%
Fee and commission income	**88,204**	74,362	18.6%	**26,198**	22,621	20,329	28.9%	15.8%
Card operations	**16,053**	13,143	22.1%	**5,151**	3,769	3,630	41.9%	36.7%
Guarantees received	**1,173**	769	52.6%	**287**	378	(1,888)	-115.2%	-24.2%
Cash transactions	**2,592**	1,544	67.9%	**635**	696	463	37.2%	-8.7%
Settlement transactions	**2,594**	2,157	20.3%	**877**	538	593	47.9%	63.1%
Foreign exchange operations	**62**	70	-11.2%	**16**	15	16	2.5%	6.2%
Letters of credit	**2,988**	3,279	-8.9%	**663**	749	1,159	-42.8%	-11.4%
Other	**4,061**	3,339	21.6%	**949**	1,083	1,073	-11.5%	-12.4%
Fee and commission expense	**29,523**	24,301	21.5%	**8,578**	7,228	5,045	70.1%	18.7%
Net Fee and Commission Income	**58,682**	50,061	17.2%	**17,620**	15,393	15,284	15.3%	14.5%

2014 to 2013 Comparison

In 2014, net fee and commission income reached GEL 58.7 million, up by GEL 8.6 million, or 17.2% compared to 2013. This mainly resulted from an increase in net fee and commission income from settlement transactions by GEL 4.9 million and from guarantees by GEL 2.5 million, driven by the growing scale of the business. The net fee and commission income from card operations decreased by GEL 0.7 million as the Bank started recording fee income from card operations on an accrual basis from 2014. Without the effect of card fee deferral accrual, which amounted to GEL 2.7 million in 2014, the net fee and commission income would have increased by GEL 11.3 million, or 22.6%, compared to the previous year.

4Q 2014 and 4Q 2013 Comparison

In 4Q 2014, net fee and commission income increased by GEL 2.3 million, or 15.3%, compared to 4Q 2013, mainly due to an increase of GEL 1.0 million in net fee and commission income from settlement transactions. In addition, net fee and commission incomes from issuance of letter of credit and from cash transactions increased by GEL 0.5 million each. Net fee and commission income from card operations increased by GEL 0.1 million. Excluding the GEL 0.4 million card fee deferral recorded in 4Q 2014, net fee and commission income would have increased by GEL 2.7 million, or 17.9%, compared to the same quarter of the previous year.

4Q 2014 and 3Q 2014 Comparison

On a QoQ basis, net fee and commission income increased by GEL 2.2 million, or 14.5%, compared to 3Q 2014, resulting from the increase in most of its components. Net fee and commission income from guarantees, letters of credit, cash transactions, card operations and settlement transactions increased by GEL 0.6 million, GEL 0.3 million, GEL 0.3 million, GEL 0.2 million and GEL 0.2 million respectively. Net fee and commission income from foreign exchange operations remained broadly stable on a QoQ basis.

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Other Operating Non-interest Income
In 4Q 2014 the Bank reclassified other operating income to fee and commission income as described above.

in thousands of GEL	FY 2014	FY 2013	Change	4Q'14	3Q'14	4Q'13	Change YoY	Change QoQ
Gains less losses from trading in foreign currencies and foreign exchange translations	**42,090**	31,993	31.6%	**15,782**	10,144	8,103	94.8%	55.6%
Gains less losses/(losses less gains) from derivative financial instruments	**(683)**	613	NMF	**(299)**	162	(57)	NMF	NMF
Revenues from sale of cash-in terminals	**851**	759	12.0%	**239**	210	152	57.6%	14.0%
Revenues from operational leasing	**6,997**	2,980	134.8%	**1,957**	1,806	1,193	64.1%	8.4%
Gain from sale of investment properties	**5,795**	5,835	-0.7%	**2,699**	63	1,139	137.0%	NMF
Gain from sale of inventories of repossessed collateral	**1,644**	1,519	8.2%	**550**	415	546	0.8%	32.6%
Administrative fee income from international financial institutions	**982**	1,268	-22.6%	**252**	199	362	-30.4%	26.5%
Revenues from non-credit related fines	**236**	339	-30.4%	**183**	35	50	264.3%	418.6%
Gain on disposal of premises and equipment	**126**	37	241.9%	**41**	26	37	11.0%	55.3%
Other	**2,966**	3,398	-12.7%	**1,012**	479	1,491	-32.1%	111.3%
Other operating income	**19,598**	16,135	21.5%	**6,934**	3,233	4,969	39.5%	114.5%
Other operating non-interest income	**61,004**	48,741	25.2%	**22,416**	13,539	13,014	72.2%	65.6%

2014 to 2013 Comparison
Total other operating non-interest income increased by GEL 12.3 million, or 25.2% to GEL 61.0 million in 2014, compared to the previous year. This increase was mainly driven by the GEL 10.1 million increase in gains from trading in foreign currencies and foreign exchange translations related to increased volumes of currency exchange operations and the increased margins on such operations, partially driven by the currency exchange rate volatility in 4Q 2014. Total other operating non-interest income was also supported by the increase in revenues from operational leasing (rental income from investment property) by GEL 4.0 million. These increases were partially offset by the loss of GEL 0.7 million from the fair valuation of interest rate swaps (reported under gains less losses from derivative financial instruments) entered for purposes of hedging interest rate increases in TBC's banking book. This loss compares to a gain of GEL 0.6 million in 2013.

4Q 2014 and 4Q 2013 Comparison
In 4Q 2014, other operating non-interest income increased by GEL 9.4 million, or 72.2%, primarily driven by the GEL 7.7 million higher gains from trading in foreign currencies and foreign exchange translations in 4Q 2014 described above. The increases in other operating non-interest income also came from the increased gains from sale of investment properties, up GEL 1.6 million due to higher sales of investment properties in Q4 2014 compared to Q4 2013 and from revenues from operational leasing, up GEL 0.8 million. These increases were partially offset by the loss in derivative financial instruments described above of GEL 0.3 million in 2014, compared to the loss of GEL 0.1 million in 4Q 2013.

4Q 2014 and 3Q 2014 Comparison
On a QoQ basis, other operating non-interest income increased by GEL 8.9 million, or 65.6%, primarily reflecting the GEL 5.6 million increase in gains from trading in foreign currencies and foreign exchange translations in 4Q 2014 described above, as well as the increase in the gains from sale of investment properties due to the higher sales of such properties in 4Q 2014. These increases were partially offset by the loss in derivative financial instruments described above of GEL 0.3 million in 4Q 2014, compared to the gain of GEL 0.2 million in 3Q 2014.

Provision for Impairment

in thousands of GEL	FY 2014	FY 2013	Change	4Q'14	3Q'14	4Q'13	Change YoY	Change QoQ
Provision for loan impairment	**48,672**	32,971	47.6%	**16,198**	5,521	9,026	79.5%	193.4%
Provision for impairment of investments in finance lease	**77**	98	-21.9%	**-89**	56	27	NMF	NMF
Provision for/ (recovery of provision) performance guarantees and credit related commitments	**-902**	6,459	NMF	**1,875**	-164	-679	NMF	NMF
Provision for impairment of other financial assets	**1,236**	2,236	-44.7%	**669**	-52	1,401	-52.3%	NMF
Impairment of investment securities available for sale	**22**	1,142	-98.1%	**0**	0	1,137	-100.0%	-100.0%
Total provision charges for impairment	**49,104**	42,906	14.4%	**18,652**	5,361	10,912	70.9%	247.9%
Operating income after provisions for impairment	**409,229**	338,546	20.9%	**113,659**	108,923	93,372	21.7%	4.3%
Cost of Risk	**1.6%**	1.3%	0.3pp	**1.9%**	0.7%	1.3%	0.6pp	1.2pp

2014 to 2013 Comparison
In 2014, total provision charges increased by GEL 6.2 million, or 14.4%, compared to 2013. The increase was driven by the increased charges on loans, due to the portfolio growth in 2014 and currency rate devaluation against USD (63% of our gross loan book is denominated in foreign currency, of which USD loans represent 96%). The increase in provision charges was partially offset by the recovery of provisions on performance guarantees and credit related commitments in 2014 due to the transfer of guarantees into loans and the reduction of provision levels on certain guarantees due to the improvement in their financial standing in 2014.

In 2014, the cost of risk on loans was 1.6%, compared to 1.3% in the previous year.

4Q 2014 and 4Q 2013 Comparison
In 4Q 2014, total provision charges increased by GEL 7.7 million to GEL 18.7 million, compared to 4Q 2013. The increase was principally driven by the GEL 7.2 million higher provision charges on loans, affected by the currency rate devaluation mentioned above and the recovery of provisions on retail loans in 4Q 2013.

As a result, the cost of risk on loans increased to 1.9% in 4Q 2014, compared to 1.3% in 4Q 2013.

4Q 2014 and 3Q 2014 Comparison
On a QoQ basis, total provision charges increased by GEL 13.3 million, primarily resulting from a GEL 10.7 million increase in loan provision charges, which was due to the portfolio growth in 4Q 2014 as well as local currency depreciation against USD. As a result, the cost of risk on loans increased by 1.2pp, compared to the 0.7% cost of risk in 3Q 2014.

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Operating Expenses

in thousands of GEL	FY 2014	FY 2013	Change	4Q'14	3Q'14	4Q'13	Change YoY	Change QoQ
Staff costs	122,835	108,613	13.1%	37,260	29,575	30,891	20.6%	26.0%
Depreciation and amortisation	24,427	19,993	22.2%	8,194	5,541	4,954	65.4%	47.9%
Provision for liabilities and charges	5,500	1,315	318.3%	720	4,780	1,315	-45.2%	-84.9%
Professional services	11,969	6,247	91.6%	3,519	1,251	3,696	-4.8%	181.2%
Advertising and marketing services	14,121	13,211	6.9%	4,701	3,027	2,924	60.8%	55.3%
Rent	11,943	10,809	10.5%	3,143	3,010	2,760	13.9%	4.4%
Utility services	3,680	3,369	9.2%	942	900	839	12.2%	4.7%
Intangible asset enhancement	4,371	3,767	16.0%	1,025	1,353	1,236	-17.1%	-24.3%
Taxes other than on income	3,899	3,043	28.1%	979	974	1,084	-9.7%	0.5%
Communications and supply	3,455	3,103	11.3%	994	861	842	18.1%	15.4%
Stationary and other office expenses	2,632	2,360	11.5%	805	624	633	27.3%	29.1%
Insurance	1,898	1,496	26.9%	433	554	386	12.3%	-21.9%
Security services	1,578	1,597	-1.2%	424	399	388	9.3%	6.1%
Premises and equipment maintenance	1,893	2,484	-23.8%	694	465	580	19.5%	49.1%
Business trip expenses	1,610	1,230	30.9%	539	297	577	-6.7%	81.4%
Transportation and vehicles maintenance	1,216	1,215	0.1%	330	314	318	3.9%	5.3%
Charity	898	905	-0.8%	141	259	268	-47.4%	-45.5%
Personnel training and recruitment	919	902	1.9%	405	254	403	0.6%	59.7%
Write-down of current assets to fair value less costs to sell	190	6,178	-96.9%	-48	337	-723	-93.3%	-114.3%
Loss on disposal of Inventory	208	221	-5.8%	7	5	221	-97.1%	38.2%
Loss on disposal of investment properties	0	76	-100.0%	0	-1	76	-100.6%	-23.3%
Loss on disposal of premises and equipment	18	54	-65.9%	5	9	28	-83.9%	-49.3%
Other	7,047	6,425	9.7%	2,484	1,531	2,124	17.0%	62.2%
Administrative and other operating expenses	73,548	68,692	7.1%	21,520	16,424	18,659	15.3%	31.0%
Operating expenses	226,310	198,613	13.9%	67,694	56,321	55,819	21.3%	20.2%
Profit before tax	182,919	139,933	30.7%	45,965	52,602	37,553	22.4%	-12.6%
Income tax expense	24,468	15,663	56.2%	5,940	7,028	2,147	176.7%	-15.5%
Profit for the period	158,451	124,270	27.5%	40,026	45,574	35,406	13.0%	-12.2%
Cost to income ratio	49.4%	52.1%	-2.7pp	51.2%	49.3%	53.5%	-2.4pp	1.9pp
ROAE	18.4%	18.7%	-0.2pp	16.0%	19.2%	19.8%	-3.8pp	-3.2pp
ROAA	3.3%	3.1%	0.2pp	3.1%	3.7%	3.4%	-0.3pp	-0.6pp

2014 to 2013 Comparison

In 2014, total operating expenses increased by GEL 27.7 million, or 13.9% YoY, of which GEL 10.7 million represented one-off charges related to the IPO (GEL 5.2 million), the settlement of Bank Constanta claims[a] (GEL 4.8 million) and the costs associated with the merger with Bank Constanta (GEL 0.7 million).

Without these one-off costs, total operating expenses would have increased by GEL 17.0 million, or 8.6% in 2014, compared to the previous year. The GEL 17.0 million increase was mainly due to the increase in staff costs by GEL 14.2 million, or 13.1% YoY (Bank Constanta accounted for GEL 3.4 million, or 24.2%, of the total staff cost increase in line with the growth of Bank Constanta's business as well as the general increase in salaries, bonuses and various HR management related costs on a TBC Group level). The increase in operating expenses was also due to the increase in depreciation and amortisation expenses that was partially driven by the change in accounting practices of Bank Constanta during premerger preparation, and partially by assets growth at large. These increases were partially offset by the reduced loss on revaluation of repossessed assets, which amounted to GEL 0.2 million loss in 2014, compared to GEL 7.1 million loss in 2013.

As a result, the cost to income ratio was 49.4% (47.0% without one-off charges) in 2014, compared to 52.1% in 2013.

(a) In July 2014, TBC settled for a gross amount of GEL 4.8 million all outstanding claims by the non-entrepreneurial (non-commercial) Legal Entity Fund Constanta (the ''Fund'') and a related individual regarding the sale by the Fund and the individual of their shares in Bank Constanta to TBC Bank in May 2011.

4Q 2014 and 4Q 2013 Comparison

In 4Q 2014, operating expenses increased by GEL 11.9 million, or 21.3%, to GEL 67.7 million, compared to 4Q 2013. This increase was primarily effected by a GEL 6.4 million increase in staff costs, which was primarily related to a 14.5% increase in staff numbers and increased salaries and bonuses and various HR management associated costs on a TBC Group level (Bank Constanta accounted for GEL 1.0 million, or 15.7% of the total staff cost increase aligned with the growth of Bank Constanta's business). The increase in operating expenses also came from depreciation and amortisation expenses due to the merger preparation period described above and one-off charges of GEL 0.7 million associated with the merger with Bank Constanta.

4Q 2014 and 3Q 2014 Comparison

On a QoQ basis, operating expenses increased by GEL 11.4 million, or 20.2%, compared to 3Q 2014. Without the one off-costs in 3Q 2014 related to the Constanta settlement case (GEL 4.8 million) and IPO expenses (GEL 0.3 million) and one-off costs in 4Q 2014 related to the Bank Constanta merger, total operating expenses would have increased by GEL 15.8 million, or 30.8% mainly due to the seasonally high cost Q4. More specifically, the increase was due to a GEL 7.7 million increase in salaries, depreciation and amortisation expenses associated with the merger preparation period of GEL 2.7 million, as well as higher professional services and marketing expenses in Q4.

As a result, the cost to income ratio was up 1.9pp QoQ, and up 5.8pp QoQ excluding one-off charges in 3Q and 4Q 2014.

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Balance Sheet Discussion

In millions of GEL	31-Dec-14	30-Sep-14	31-Dec-13	Change QoQ	Change YoY
Cash, due from banks and mandatory cash balances with NBG	901.9	895.1	687.5	0.8%	31.2%
Loans and advances to customers (Net)	3,556.5	3,084.1	2,801.7	15.3%	26.9%
Financial securities	466.5	567.2	500.7	-17.7%	-6.8%
Fixed and intangible assets & investment property	322.7	306.0	306.5	5.4%	5.3%
Other assets	175.9	191.2	154.7	-8.0%	13.7%
Total assets	5,423.5	5,043.6	4,451.1	7.5%	21.8%
Due to credit institutions	749.3	760.3	565.8	-1.5%	32.4%
Customer accounts	3,322.4	3,002.8	2,886.9	10.6%	15.1%
Debt Securities in issue	20.4	14.7	4.5	38.6%	356.5%
Subordinated Debt	188.0	180.7	168.3	4.0%	11.7%
Other liabilities	123.8	110.3	96.3	12.3%	28.5%
Total Liabilities	4,404.0	4,068.9	3,721.8	8.2%	18.3%
Total equity	1,019.5	974.7	729.3	4.6%	39.8%

Assets

As of 31 December 2014, TBC had total assets of GEL 5,423.5 million, up by GEL 972.4 million, or 21.8% YoY. This increase in total assets was mainly due to the increase in net loans to customers by GEL 754.8 million, or 26.9%. The YoY increase in total assets was also due to a GEL 176.0 million, or 14.9% increase in liquid assets (comprising cash and cash equivalents, amounts due from other banks, mandatory cash balances and investment securities available for sale less corporate shares), compared to 31 December 2013.

On a QoQ basis, total assets increased by GEL 379.9 million, or 7.5%, primarily due to a GEL 472.4 million, or 15.3%, increase in net loans and advances to customers to GEL 3,556.5 million. This increase was in turn driven mainly by growth in retail and corporate net portfolios, along with the growth in SME and micro segments. This trend was partially offset by a decrease in liquid assets by 5.9% to GEL 1,358.6 million. As a result, our liquid assets to liability ratio decreased to 30.8%, compared to 35.5% as of 30 September 2014.

As of 31 December 2014, the gross loan portfolio reached 3,706.3 million, up 25.3% YoY and 14.7% QoQ. At the same time, gross loans denominated in foreign currency accounted for 63.2% of total gross loans, compared to 69.3% at 31 December 2013 and 64.1% at 30 September 2014, which reflects the downward trend in foreign currency denominated loans. The NPL ratio, defined as loans overdue more than 90 days relative to gross loan portfolio, stood at 0.5%, compared to 1.1% and 0.9% as of 31 December 2013 and 30 September 2014, respectively. The NPL+restructured ratio was 3.7%, compared to 4.8% and 4.1% as of 31 December 2013 and 30 September 2014, respectively, and the NPL+restructured loans coverage ratio was 109.4%, compared to 110.6% as of 31 December 2013 and 111.6% as of 30 September 2014.

Liabilities

As of 31 December 2014, TBC had total liabilities of GEL 4,404.0 million, up 18.3% YoY and 8.2% QoQ.

On a YoY basis, the GEL 682.2 million, or 18.3%, increase in total liabilities was primarily due to the GEL 435.5 million, or 15.1%, increase in customer deposits, which was primarily driven by the increase in retail deposits, as well as due to a GEL 183.5 million increase in due to credit institutions, which resulted from increases in other borrowed funds by GEL 144.7 million and in due to other banks by GEL 38.7 million. The increase in total liabilities was also driven by the issuance of bonds in 2014 by our subsidiaries TBC Kredit and TBC Leasing in the amounts of USD 5.0 million and USD 2.0 million, respectively.

On a QoQ basis, the GEL 335.1 million, or 8.2% increase in total liabilities was primarily due to the GEL 319.6 million, or 10.6% increase in customer accounts.

Liquidity

The Bank's liquidity ratio, as defined by the National Bank of Georgia, was 31.1%, compared to 34.0% and 37.7% as of 31 December 2013 and 30 September 2014, respectively.

Total Equity

As of 31 December 2014, TBC had total equity of GEL 1,019.5 million, compared to GEL 729.3 million as of 31 December 2013 and GEL 974.7 million as of 30 September 2014. The YoY increase in total equity was primarily driven by the net income attributable to owners of the bank of GEL 157.5 million and the IPO gross proceeds of GEL 175.6 million. These increases were partially offset by the 2013 dividend payout in Q1 2014 of GEL 26.5 million.

Regulatory Capital

As of 31 December 2014, the Bank's Basel II/III[a] tier 1 and total capital adequacy ratios (CAR) were 12.4% and 15.0%, respectively, compared to 10.7% and 14.4% as of 31 December 2013, and 13.6% and 16.7% as of 30 September 2014. The decrease in CAR ratios on a QoQ basis was due to the 14.8% increase in risk weighted assets associated with the increased gross loans and the local currency devaluation. The minimum capital requirements set by NBG for Basel II/III tier 1 and total capital ratios are 8.5% and 10.5% (13.5% including the capital buffer), respectively. The Bank's Basel II/III tier 1 capital reached GEL 783.4 million, compared to GEL 526.2 million as of 31 December 2013 and GEL 743.6 million as of 30 September 2014. Risk weighted assets were GEL 6,296.7 million as of 31 December 2014, up GEL 1,395.7 million YoY and up GEL 809.9 million QoQ.

The Bank's Basel I tier 1 capital ratio was 24.7%, compared to 21.6% and 26.8% as of 31 December 2013 and 30 September 2014, respectively. Tier 1 capital reached GEL 967.5 million, compared to 675.7 million and 926.1 million as of 31 December 2013 and 30 September 2014, respectively. Risk weighted assets were GEL 3,910.8 million as of 31 December 2014, up GEL 775.3 YoY and GEL 454.5 million QoQ.

(a) Starting from June 2014 National Bank of Georgia enforced Basel II/III regulation.

Market Shares[b]

Asset Market Shares

TBC Bank's market share in total assets increased by 1.0pp YoY and 0.4pp QoQ, attaining 26.3% as of 31 December 2014.

Loans Market Shares

TBC Bank's market share in total loans was 27.7% as of 31 December 2014, up 0.4pp YoY and 0.7pp QoQ.

In terms of individual loans, the Bank became the largest bank in individual loans with 29.7% of market share as of 31 December 2014, up 2.0pp YoY and 1.1pp QoQ. The market share in legal entity loans was 25.8%, down 1.1pp YoY and up 0.3pp QoQ.

Deposits Market Shares

TBC Bank's market share in total deposits was 28.4% as of 31 December 2014, down 1.1pp YoY and up 0.6pp QoQ.

The Bank maintains its longstanding leadership in individual deposits with a market share of 33.7%, up 0.7pp YoY and up 0.5pp QoQ. In terms of legal entity deposits, TBC Bank had market share of 23.0%, down 2.9pp YoY and up 0.6pp QoQ. The Bank uses corporate deposits mainly for liquidity management purposes.

(b) Market shares are based on National Bank of Georgia (NBG) and include Bank Constanta.

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Results by Segments and Subsidiaries

- Retail – all individual customers of the Group as well as customers that have been granted gold-pawn loans.
- Corporate – business customers which have annual revenue of GEL 8.0 million or more or have been granted a loan in an amount equivalent to USD 1.5 million or more. Some other significant legal entity customers may also be assigned the status of being a corporate customer, on a discretionary basis; for example, if they are regarded by the Group as having strong growth potential.
- SME – business customers that are not included either in the corporate or micro segments.
- Micro – all business customers of Bank Constanta, that have been granted loans by and/or have deposits with Bank Constanta, the amount of which in neither case exceeds USD 150 thousand.
- Corporate Center and Other Operations – comprise the Treasury, other support and back office functions, and non-banking subsidiaries of the Group.

The following table sets out information on the financial results of TBC's segments for 2014:

In thousands of GEL	Retail	Corporate	SME	Micro	Corp. Center	Total
31-Dec-14						
Interest Income	237,804	116,404	53,739	57,573	46,837	512,357
Interest Expense	-80,808	-21,845	-7,196	-192	-63,668	-173,709
Intersegment interest income/(expense)	7,499	-42,246	-3,640	-18,468	56,855	–
Net interest income	**164,495**	**52,313**	**42,903**	**38,913**	**40,024**	**338,648**
Fee and commission income	46,368	18,093	9,268	3,498	10,976	77,865
Fee and commission expense	-26,230	-1,312	-906	-911	-164	-29,523
Net Fee and commission income	**20,138**	**16,781**	**8,362**	**2,587**	**10,812**	**58,680**
Gains less losses from trading in foreign currencies	9,932	12,456	13,286	1,820	2,236	39,730
Foreign exchange translation losses less gains	–	–	–	–	2,359	2,359
Net gain from derivative financial instruments	–	–	–	–	-683	-683
Other operating income	–	–	–	–	19,600	19,600
Other operating non interest income	**9,932**	**12,456**	**13,286**	**1,820**	**23,512**	**61,006**
Provision for loan impairment	-22,046	-18,995	-1,625	-6,006	–	-48,672
Provision for performance guarantees and credit related commitments	–	885	17	–	–	902
Provision for impairment of investments in finance lease	–	–	–	–	-77	-77
Provision for impairment of other financial assets	–	–	–	–	-1,236	-1,236
Impairment of investment securities available for sale	–	–	–	–	-22	-22
Profit before administrative and other expenses and income taxes	**172,519**	**63,440**	**62,943**	**37,314**	**73,013**	**409,229**
Staff costs	-55,427	-11,826	-10,755	-15,808	-29,019	-122,835
Depreciation and amortisation	-13,132	-780	-1,915	-3,579	-5,021	-24,427
Provision for liabilities and charges	–	–	–	–	-5,500	-5,500
Administrative and other operating expenses	-36,026	-4,432	-4,981	-9,600	-18,509	-73,548
Operating expenses	**-104,585**	**-17,038**	**-17,651**	**-28,987**	**-58,049**	**-226,310**
Profit before tax	**67,934**	**46,402**	**45,292**	**8,327**	**14,964**	**182,919**
Income tax expense	-9,087	-6,207	-6,059	-1,114	-2,001	-24,468
Profit for the year	**58,847**	**40,195**	**39,233**	**7,213**	**12,963**	**158,451**

The following table sets out loans and customer deposits portfolios of TBC's segments as of 31 December 2014, 30 September 2014 and 31 December 2013:

In thousands of GEL	31-Dec-14	30-Sep-14	31-Dec-13
Loans and Advances to Customers			
Consumer	781,043	676,337	603,434
Mortgage	716,868	627,531	499,428
Pawn	169,002	142,361	104,652
Retail	1,666,913	1,446,229	1,207,514
Corporate	1,231,729	1,084,219	1,157,334
SME	533,919	460,727	392,446
Micro	273,699	239,034	201,287
Total loans and advances to customers (gross)	3,706,261	3,230,209	2,958,581
Less: Provision for loan impairment	-149,764	-146,145	-156,869
Total loans and advances to customers (net)	3,556,496	3,084,064	2,801,712
Customer Accounts			
Retail	1,977,173	1,788,244	1,610,676
Corporate	832,555	746,345	819,779
SME	507,816	463,078	451,985
Micro	4,884	5,142	4,443
Total customer accounts	3,322,428	3,002,810	2,886,883

Retail Banking

Retail Loans and Advances to Customers

As of 31 December 2014, retail loans stood at GEL 1,666.9 million, up by 38.0% YoY and 15.3% QoQ. As of this date, TBC Bank's market share in individual loans was 29.7%.

As of 31 December 2014, foreign currency loans represented 56.2% of total retail loan portfolio.

Retail Customer Deposits

As of 31 December 2014, retail deposits increased to GEL 1,977.2 million, up 22.8% YoY and 10.6% QoQ. TBC's market share in individual deposits was 33.7% as of the same date.

Term deposits represented 65.4% of the total retail deposit portfolio as of 31 December 2014. Foreign currency deposits represented 84.3% of total retail deposit portfolio.

Retail Segment Profitability

In 2014, retail loan yields and deposit rates stood at 17.4% and 4.6%, respectively, and the segment's cost of risk was 1.6%. The retail segment contributed to 37.1%, or GEL 58.8 million, to TBC's total net income in 2014.

Corporate Banking

Corporate Loans and Advances to Customers

As of 31 December 2014, corporate loans amounted to GEL 1,231.7 million, up by 6.4% YoY and 13.6% QoQ. As of the same date, foreign currency loans represented 69.6% of the total corporate loan portfolio.

Corporate Customer Deposits

As of 31 December 2014, corporate deposits were GEL 832.6 million, up 1.6% YoY and 11.6% QoQ. As of the same date, foreign currency corporate deposits represented 41.7% of the total corporate deposit portfolio.

Corporate Segment Profitability

In 2014, corporate loan yields and deposit rates stood at 10.7% and 3.0%, respectively. In the same period, the cost of risk was 1.8%. In terms of profitability, the corporate segment's net profit reached GEL 40.2 million, or 25.4% of TBCs total net income.

SME Banking

SME Loans and Advances to Customers

As of 31 December 2014, SME loans increased to GEL 533.9 million, up by 36.0% YoY and 15.9% QoQ. Despite the absence of SME market information[a], the management believes that TBC Bank is one of the leading banks in the market, based on its large and continuously-growing number of loyal customers.

(a) Due to the fact that NBG does not produce market data comparisons for the SME segment, it is impossible to calculate SME market shares.

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As of 31 December 2014, foreign currency loans represented 84.3% of the total SME portfolio.

SME Customer Deposits

As of 31 December 2014, SME deposits were GEL 507.8 million, up by 12.4% YoY and 9.7% QoQ. In regard to SME deposits, the management believes that TBC Bank has the largest shares on the market, based on its large customer base.

Foreign currency SME deposits represented 54.0% of total SME deposit portfolio.

SME Segment Profitability

In 2014, SME loan yields and deposit rates stood at 12.3% and 1.6%, respectively. In the same period, cost of risk was 0.4%. In terms of profitability, the SME segment net profit reached GEL 39.2 million, or 24.8%, of TBC's total net income.

Micro Banking

Micro Loans and Advances to Customers

Micro loans reached GEL 273.7 million as of 31 December 2014, up by 36.0% YoY and 14.5% QoQ. As of the same date, foreign currency loans represented 35.9% of the total micro loan portfolio.

Micro Customer Deposits

As of 31 December 2014, micro customer deposits amounted to GEL 4.9 million, up by 9.5% YoY and down 5.0% QoQ. The QoQ decrease was mainly due to the release of costly legal entity deposits aligned with the management's decision to optimise the cost of funding prior to the merger of TBC Bank and Bank Constanta, which was completed in January 2015.

Foreign currency micro deposits represented 26.3% of the total micro deposit portfolio.

Micro Segment Profitability

In 2014, micro loan yields and deposit rates stood at 24.8% and 4.2%, respectively. In the same period, the cost of risk was 2.6%. In terms of profitability, the micro segment's net profit reached GEL 7.2 million, or 4.6% of TBC's total net income.

Subsidiaries

					Total Assets (after elimination)	
Subsidiary	Ownership/ voting % as of 31 December 2014	Country	Year of incorporation or acquisition	Industry	Amount GEL'000	% in TBC Group
United Financial Corporation JSC	98.7%	Georgia	1997	Card processing	6,666	0.12%
TBC Broker LLC	100.0%	Georgia	1999	Brokerage	228	0.00%
TBC Leasing JSC	99.5%	Georgia	2003	Leasing	71,099	1.31%
TBC Kredit LLC	75.0%	Azerbaijan	2008	Non-banking credit institution	91,165	1.68%
Banking System Service Company LLC	100.0%	Georgia	2009	Information services	494	0.01%
TBC Pay LLC	100.0%	Georgia	2009	Processing	23,089	0.43%
Real Estate Management Fund JSC	100.0%	Georgia	2010	Real estate management	1,129	0.02%
TBC Invest LLC	100.0%	Israel	2011	PR and marketing	99	0.00%
Bank Constanta JSC	100.0%	Georgia	2011	Financial institution	456,330	8.41%

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Consolidated Balance Sheet

in thousands of GEL	31-Dec-14	30-Sep-14	31-Dec-13
Cash and cash equivalents	532,118	548,286	390,465
Due from other banks	33,704	31,928	1,708
Mandatory cash balances with National Bank of Georgia	336,075	314,902	295,332
Loans and advances to customers (Net)	3,556,496	3,084,064	2,801,712
Investment securities available for sale	466,510	557,219	500,651
Repurchase receivables	0	9,965	0
Investments in finance leases	50,907	43,944	35,613
Investment properties	76,216	77,893	83,383
Goodwill	2,726	2,726	2,726
Intangible assets	37,756	30,244	23,491
Premises and equipment	208,692	197,859	199,668
Other financial assets	43,857	42,443	45,049
Deferred income tax asset	383	304	0
Current income tax prepayment	251	4,813	6,202
Other assets	77,776	96,978	65,075
TOTAL ASSETS	5,423,466	5,043,567	4,451,075
LIABILITIES			
Due to credit institutions	749,285	760,339	565,806
Customer accounts	3,322,428	3,002,810	2,886,883
Current income tax liability	12,433	1,158	0
Debt Securities in issue	20,423	14,732	4,474
Deferred income tax liability	23,187	34,225	27,814
Provisions for liabilities and charges	11,899	9,352	12,380
Other financial liabilities	41,346	36,062	24,850
Subordinated debt	188,015	180,737	168,274
Other liabilities	34,974	29,500	31,305
TOTAL LIABILITIES	4,403,990	4,068,915	3,721,786
EQUITY			
Share capital	19,576	19,576	16,499
Share premium	405,658	405,658	242,624
Retained earnings	532,992	492,135	402,627
Share based payment reserve	4,624	3,605	2,032
Other reserves	49,255	45,839	50,840
TOTAL EQUITY	1,012,105	966,813	714,622
Non-controlling interest	7,371	7,839	14,667
TOTAL EQUITY	1,019,477	974,652	729,289
TOTAL LIABILITIES AND EQUITY	5,423,466	5,043,567	4,451,075

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Consolidated Income Statement

In thousands of GEL	FY 2014	FY 2013	4Q'14	3Q'14	4Q'13
Interest income	512,357	474,796	136,780	128,585	120,710
Interest expense	-173,709	-192,146	-44,505	-43,234	-44,725
Net interest income	338,648	282,650	92,276	85,351	75,985
Fee and commission income	88,204	74,362	26,198	22,621	20,329
Fee and commission expense	-29,523	-24,301	-8,578	-7,228	-5,045
Net Fee and Commission Income	58,682	50,061	17,620	15,393	15,284
Gains less losses from trading in foreign currencies	39,730	37,894	14,618	8,391	11,695
Foreign exchange translation gains less losses	2,359	-5,901	1,164	1,753	-3,592
Gains less losses/(losses less gains) from derivative financial instruments	-683	613	-299	162	-57
Other operating income	19,598	16,135	6,934	3,233	4,969
Other operating non-interest income	61,004	48,741	22,416	13,539	13,014
Provision for loan impairment	-48,672	-32,971	-16,198	-5,521	-9,026
Provision for impairment of investments in finance lease	-77	-98	89	-56	-27
Provision for/ (recovery of provision) performance guarantees and credit related commitments	902	-6,459	-1,875	164	679
Provision for impairment of other financial assets	-1,236	-2,236	-669	52	-1,401
Impairment of investment securities available for sale	-22	-1,142	0	0	-1,137
Operating income after provisions for impairment	409,229	338,546	113,659	108,923	93,372
Staff costs	-122,835	-108,613	-37,260	-29,575	-30,891
Depreciation and amortisation	-24,427	-19,993	-8,194	-5,541	-4,954
Provision for liabilities and charges	-5,500	-1,315	-720	-4,780	-1,315
Administrative and other operating expenses	-73,548	-68,692	-21,520	-16,424	-18,659
Operating expenses	-226,310	-198,613	-67,694	-56,321	-55,819
Profit before tax	182,919	139,933	45,965	52,602	37,553
Income tax expense	-24,468	-15,663	-5,940	-7,028	-2,147
Profit for the period	158,451	124,270	40,026	45,574	35,406
Profit attributable to owners of the bank	157,451	121,616	39,901	45,518	34,646

Key Ratios

Average Balances

Average balances included in this document are calculated as the average of the relevant monthly balances as at each month end. Balances have been extracted from TBC's unaudited and consolidated management accounts prepared from TBC's accounting records and used by Management for monitoring and control purposes.

	FY 2014	FY 2013	4Q'14	3Q'14	4Q'13
ROAE[1]	**18.4%**	18.7%	**16.0%**	19.2%	19.8%
ROAA[2]	**3.3%**	3.1%	**3.1%**	3.7%	3.4%
Pre-provision ROAE	**24.2%**	25.3%	**23.5%**	21.4%	26.0%
Pre-provision ROAA	**4.4%**	4.2%	**4.5%**	4.1%	4.4%
Cost: Income[3]	**49.4%**	52.1%	**51.2%**	49.3%	53.5%
Cost of Risk[4]	**1.6%**	1.3%	**1.9%**	0.7%	1.3%
NIM[5]	**8.5%**	8.4%	**8.5%**	8.3%	8.5%
Loan yields[6]	**14.9%**	16.6%	**14.3%**	14.9%	16.0%
Deposit rates[7]	**3.7%**	5.5%	**3.5%**	3.6%	4.5%
Yields on interest earning assets[8]	**12.8%**	14.1%	**12.6%**	12.5%	13.6%
Cost of Funding[9]	**4.6%**	5.9%	**4.4%**	4.5%	5.3%
Spread[10]	**8.2%**	8.2%	**8.2%**	8.0%	8.3%
NPLs to gross loans[11]	**0.5%**	1.1%	**0.5%**	0.9%	1.1%
NPLs+restructured loans to gross loans[12]	**3.7%**	4.8%	**3.7%**	4.1%	4.8%
Provision Level to Gross Loans[13]	**4.0%**	5.3%	**4.0%**	4.5%	5.3%
NPLs+Restructured loans coverage ratio[14]	**109.4%**	110.6%	**109.4%**	111.6%	110.6%
BIS Tier 1[15]	**24.7%**	21.6%	**24.7%**	26.8%	21.6%
Total BIS CAR[16]	**30.4%**	28.6%	**30.4%**	33.0%	28.6%
NBG Basel II Tier 1 CAR[17]	**12.4%**	10.7%	**12.4%**	13.6%	10.7%
NBG Basel II Total CAR[18]	**15.0%**	14.4%	**15.0%**	16.7%	14.4%

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Selected Ratios Calculated Based on Quarterly Averages

For the readers' convenience, below are the ratios calculated based on quarterly average balances.

	FY 2014	FY 2013	4Q'14	3Q'14	4Q'13
ROAE	**18.2%**	18.7%	**16.0%**	19.2%	19.8%
ROAA	**3.3%**	3.1%	**3.0%**	3.7%	3.3%
Pre-provision ROAE	**23.9%**	25.3%	**23.5%**	21.4%	26.0%
Pre-provision ROAA	**4.3%**	4.2%	**4.4%**	4.1%	4.3%
Cost of Risk	**1.5%**	1.2%	**1.9%**	0.7%	1.3%
NIM	**8.3%**	8.3%	**8.3%**	8.2%	8.4%
Loan yields	**14.6%**	16.4%	**14.2%**	14.7%	15.8%
Deposit rates	**3.7%**	5.4%	**3.5%**	3.6%	4.4%
Yields on interest earning assets	**12.6%**	13.9%	**12.3%**	12.4%	13.4%
Cost of Funding	**4.5%**	5.8%	**4.3%**	4.4%	5.1%
Spread	**8.1%**	8.1%	**8.1%**	7.9%	8.3%

Ratio definitions

1. Return on average total equity (ROAE) equals net income attributable to owners divided by monthly average of total shareholders' equity attributable to the Bank's equity holders for the same period; Pre-provision ROAE excludes all provision charges. Annualised where applicable.
2. Return on average total assets (ROAA) equals net income of the period divided by monthly average total assets for the same period. Pre-provision ROAE excludes all provision charges. Annualised where applicable.
3. Cost to Income ratio equals total operating expenses for the period divided by the total revenue for the same period. (Revenue represents the sum of net interest income, net fee and commission income and other non-interest income).
4. Cost of risk equals provision for loan impairment divided by monthly average gross loans and advances to customers. Annualised where applicable.
5. Net interest margin (NIM) is net interest income divided by monthly average interest-earning assets. Annualised where applicable.
6. Loan yields equal interest income on loans and advances to customers divided by monthly average gross loans and advances to customers. Annualised where applicable.
7. Deposit rates equal interest expense on customer accounts divided by monthly average total customer deposits. Annualised where applicable.
8. Yields on interest earning assets equals total interest income divided by monthly average interest earning assets. Annualised where applicable.
9. Cost of funding equals total interest expense divided by monthly average interest bearing liabilities. Annualised where applicable.
10. Spread equals difference between yields on interest earning assets and cost of funding.
11. NPLs to gross loans ratio equals loans for which principal or interest repayment is overdue for more than 90 days divided by the gross loan portfolio for the same period.
12. NPLs+restructured loans to gross loans equal NPLs plus those restructured loans that are overdue by 90 days or less divided by the gross loan portfolio for the same period.
13. Provision Level to Gross Loans equal loan loss provision divided by the gross loan portfolio for the same period.
14. NPLs+Restructured loans coverage ratio equal loan loss provision divided by the sum of NPLs plus those restructured loans that are overdue by 90 days or less.
15. BIS Tier 1 capital adequacy ratio Tier 1 capital over total risk weighted assets, both calculated in accordance with Basel I requirements.
16. Total BIS CAR equals total capital over total risk weighted assets, both calculated in accordance with Basel I requirements.
17. NBG Basel II Tier 1 CAR equals Tier I Capital divided by total risk weighted assets, both calculated in accordance with the NBG Basel II requirements. After adoption of NBG Basel II/III requirements, the Bank also calculates its capital requirements and risk weighted assets separately for Pillar 1. Detailed instructions of Pillar 1 calculations are given by NBG. The reporting started from the end of 2012.
18. NBG Basel II Total CAR equals total capital divided by total risk weighted assets, both calculated in accordance with the NBG Basel II requirements. After adoption of NBG Basel II/III requirements, the Bank also calculates its capital requirements and risk weighted assets separately for Pillar 1. Detailed instructions of Pillar 1 calculations are given by NBG. The reporting started from the end of 2012.

Exchange Rates

Certain financial information in this document is presented in USD solely for the convenience of the reader. For balance sheet items, we used the end-of-period official exchange rate as reported by the NBG as of 31 December 2014, 30 September 2014, and 31 December 2013.

Strategic Report

Corporate Social Responsibility Report

TBC Bank's outstanding CSR track record was recognised by the EMEA Finance Magazine with the Best Corporate Social Responsibility in Central & Eastern Europe and CIS 2013 award.

We firmly believe that it is our responsibility to support the community, the environment and our wider stakeholders among which we operate. The Bank's CSR Strategy covers four main areas: workplace, market place, environment and community.

Workplace

TBC Bank is dedicated to creating the best workplace experience for its employees. We offer employees the largest benefits package in the country, as well as advanced professional education and training opportunities. Projects implemented for TBC Bank employees include:

- TBC Fund for Employees with Large Families (founded in 2013);
- TBC Academy providing training and workshops in different areas of business and banking free of charge for TBC Bank employees (founded in 2011);
- Tuition funding to ten members of the middle management for studies at an MBA level;
- Full social benefits package, including health insurance, pension schemes, and lengthy, fully-paid maternity and paternity leave.

These and other matters concerning employee relations are covered in greater detail on page 26.

Marketplace

TBC Bank has a traditional commitment to supporting small and medium size businesses. We have a track record for attracting dedicated facilities for SME financing – including local currency and sector-specific funds for high-priority industries in the country (such as agriculture, healthcare and energy).

Additionally, TBC Bank is the first bank in the region to offer free educational services to its SME clients through the TBC Bank Business Support Programme launched in 2013 with support from IFC and ADB and in partnership with IBM, Ernst & Young and BDO.

The Business Support Programme is covered in greater detail on page 32.

Environment

TBC Bank believes it has one of the most advanced Environmental and Social Risk Management systems in the region. Our ESMS Policy is aligned with the requirements of all relevant recommended best practices. The system has been developed in cooperation with EBRD, IFC, DEG, ADB, and FMO and includes provisions that are often much stricter than national requirements. The Bank also ensures that its clients and sub-contractors comply with international social and environmental standards.

ESMS Policy

TBC Bank was one of the first banks in the country to develop an Environmental and Social Management System (ESMS). Our International Financial Institution (IFI) shareholders – DEG, IFC, EBRD, and FMO – provided expertise and guidance throughout the process to ensure that the Bank implements the most advanced and comprehensive system based on the highest standards of international best practice.

The ESMS Policy focuses on the environmental and social issues associated with commercial lending and investments. The main provisions of the ESMS policy are as follows:

- Environmental and social (E&S) risks associated with the Bank's operations, relying on tools like EBRD's Environmental and Social Risk Management Manual, IFC's web-based ES toolkit, FMOs Sectoral Guidelines for Environmental and Social Risk Assessment, IFC's Sustainability Framework and Performance Standards and Guidance Notes, UNEP-FI's Guide to Banking and Sustainability, and ADB's ESMS Template for Banks and Funds.
- Protection of human and labour rights, especially those of vulnerable population groups, including children and indigenous peoples.

TBC Bank regularly updates the SEMS document together with its shareholder and partner IFIs.

The latest update to the policy was approved by the Supervisory Board and signed by our CEO in December 2012. Our commitment to regularly reviewing and upgrading our SEMS policy ensures that the Bank effectively manages environmental and social risks associated with its operations in order to minimise its impact on the environment and its stakeholders.

Full details of the TBC Bank ESMS policy are available on the Bank's Investor Relations website.

Community

TBC Bank differentiates itself through long-term and significant financial commitment to developing culture, art and music in Georgia, as well as by maintaining Georgian national heritage. Our investment and support in the community has continued with several new, as well as sustained traditional projects in 2014.

Community Projects implemented by TBC Bank in 2014 include:

- Exclusive exhibition of Georgian cultural heritage
- Literary Award Saba
- Saba Electronic Bookstore
- First digital TV channel Artarea
- TBC Art Gallery
- TBC Gallery
- Public Private Partnership (PPP) for Georgian cinema development
- Art Wall, a unique display project
- Kolga Photo Competition
- Projects for tourism and the promotion of sports among young people
- TV project on money management

From Bronze to TBC – Ancient Georgian Treasures at TBC Art Gallery
The feature exhibition of 2014 at TBC Art Gallery was the presentation of a unique collection of ancient Georgian openwork bronze buckles, preserved to this date in the Oni Local Museum. The exhibition integrated 18 historical artefacts that date back to the eighth to sixth centuries BC and the first to fourth centuries AD.

These buckles are of special importance to the history of Georgian culture. They incorporate ancient traditions of artistic metalwork and decorative jewellery design. The openwork bronze buckles discovered in Georgia already attracted scientists' attention in the early 19th century. Due to the lack of appropriate regulatory framework, the artefacts were exported abroad and appeared in private collections.

Thus it was of special importance to display the collection of 18 buckles still located in Georgia to the wider public, which was largely unaware of its existence, and preserve its significance in the history of Georgian culture.

Rehabilitation of Mutso – Georgian Cultural Heritage
Mutso is a stronghold city in the Northern part of mountainous Georgia that dates back to the middle ages and integrates 25 fortress-houses and five battle towers. Constructions similar to Mutso are common in the Caucasus. However, this site is unique for its vertically developed urbanisation. Unfortunately, only two to four of the original six floors of the battle towers have survived the test of time, while the rest of the buildings require urgent reconstruction as well. TBC Bank proudly supports the project of rehabilitation for this historic monument and the site is set to welcome its first tourist in 2015.

Strategic Report

Corporate Social Responsibility Report

Continued

Literary Award Saba
TBC continued to support the Saba Literary Awards Programme, one of the most respected and anticipated literary events in the country. TBC Bank founded the programme in 2003 with 2014 marking the 12th anniversary of the ceremony. To this date, the Bank has recognised over 110 authors and awarded c. GEL 380,000 in prizes.

SABA online bookstore, the satellite project to the Awards Programme, has been gaining popularity among the local and expat communities. The e-bookstore, which also introduced the first Georgian e-reader apps for Android and iOS in 2014, promotes Georgian literature beyond the country's borders and allows new authors to be discovered and appreciated. To this date, up to 150 established and up-and-coming writers have created their own electronic books and sold them using our innovative e-book platform. The e-bookstore can be accessed at www.saba.com.ge.

Artarea – www.artarea.tv
In 2014, TBC Bank continued its active support in the development of the first online and digital TV project focusing on culture. Due to the unique content of the channel and the authors gathered around it, Artarea went beyond virtual space in 2014 and started broadcasting on cable. Artarea provides viewers with news on the latest developments and achievements in culture and arts, featuring popular Georgian authors and cultural figures. In 2014, the project expanded its activity and in conjunction with the digital work, became a physical space where people interested in arts can attend various master classes and meet artists and authors. Furthermore, the practice of sharing experience with students transformed into a firm tradition at Artarea.

TBC Art Gallery and TBC Gallery
TBC Art Gallery actively presented significant art events to the public throughout 2014. Four exclusive exhibitions were held during the year and aimed to promote the most outstanding representatives of Georgian visual arts.

TBC Gallery, located in TBC Bank's head office, hosted more than 50 cultural events, among them were presentations of new books, movies, musical albums, paintings and photos, concerts, and creative evenings. TBC Gallery is one of the most active and prestigious galleries in the country.

TBC Supporting Georgian Art Abroad
In 2014, TBC Bank actively promoted Georgian artists abroad. Four independent projects were implemented in this direction:

London Rich Mix Art Space exhibition: Heritage
With financial backing from TBC Bank, the project entitled Heritage was presented at the London Rich Mix Art Space. This project united four Georgian and one Argentinian artist and took place at the Shoreditch Rich Mix Contemporary Art Space in London.

Georgians at the New Talents – Biennale Cologne
Two Georgian artists, together with 56 others representing different countries, appeared at the New Talents – Biennale Cologne event held in Germany. TBC Bank was the presenting sponsor of these young Georgian artists and the official partner of the Biennale.

Promotion of Georgian artists to Sotheby's
In 2014, TBC Art Gallery presented two Georgian artists at the Sotheby's Auction House sale event Crossroads. The event also incorporated artworks from Turkey, Iran, Afghanistan and Tajikistan. The project was implemented with active support from the Chairman of TBC Bank Supervisory Board, Mamuka Khazaradze. The event marked the second time TBC Gallery has presented works of art from Georgian artists at a Sotheby's auction event.

Georgian artists in PHOTO-OFF
TBC Art Gallery presented several Georgian photographers with the project C.V.-LISATION OF MADNESS at the yearly photo exhibition PHOTO-OFF in Paris in 2014. This was the second time Georgian photographers were invited to the event. Like last year, the Georgian project became very popular among photo critics and international magazines and newspapers. TBC Art Gallery was the presenter both years.

Public Private Partnership for Georgian Cinema
In 2014 TBC Bank started the first ever pubic private partnership (PPP) programme in support of Georgian cinema, an area of contemporary Georgian art that we believe has the greatest potential for international success. With the donation of approximately GEL 100,000 to the Georgian National Film Center, TBC Bank sponsored the production of eight short fiction and documentary films. All eight products are currently at the post-production stage, and TBC Bank and the Film Center will jointly present them in May 2015.

Art Wall – digital space for contemporary artists
TBC Bank created the first digital space dedicated to modern video art titled ART WALL. Located at one of the Bank's branches in the central part of the capital city, the Wall presents open-air art shows by established and promising Georgian artists.

Promotion of young photographers
Another traditional project pioneered by TBC Bank in 2004 celebrated its 11th anniversary this year. Kolga, a photo competition for young artists, seeks to discover and promote yet unknown photographers. The winning pieces were displayed at the Bank's head office.

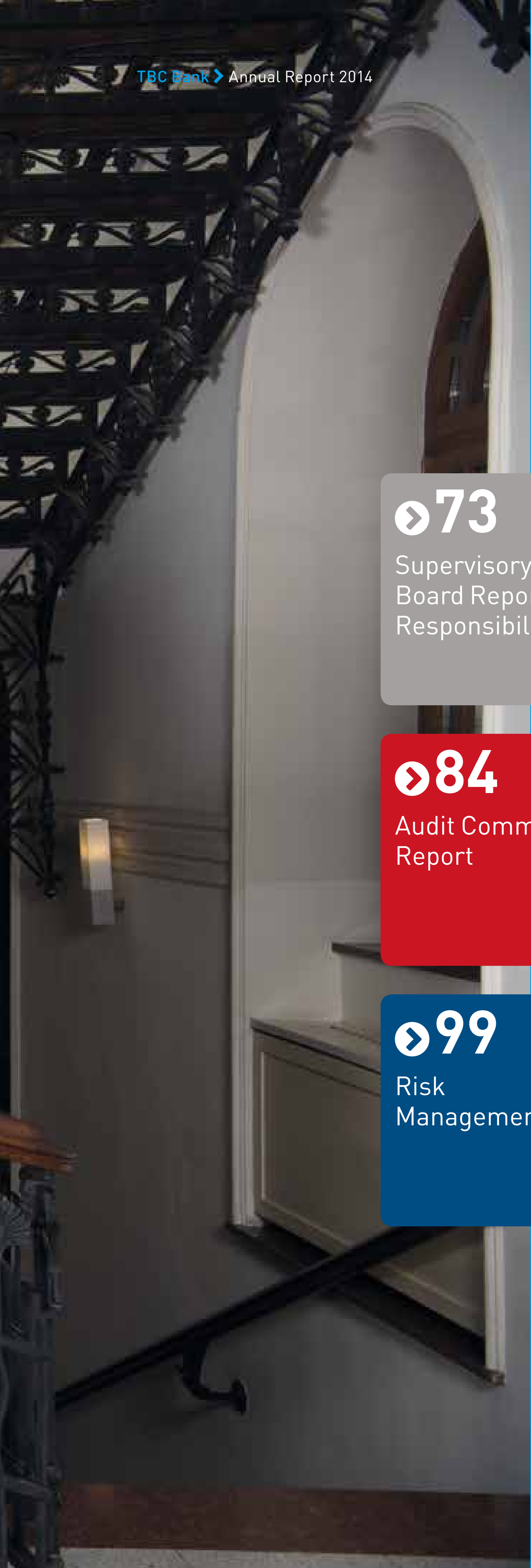
Development of tourism and promotion of sports among youth
- **Infrastructure works in Tusheti –** TBC continued to rehabilitate the horse-riding routes and other tourist infrastructure in the remote mountainous region of Georgia, which attracts special interest from campers and hikers.
- **Zeta Camping –** Zeta is a seasonal camp in a mountainous city of Georgia, financed by TBC Bank. The camp can host approximately 30 people each season and provides necessary infrastructure for tourists and visitors. The Bank's investment was crucial for developing and promoting tourism in the region.

Notable social projects
- Financial aid to the Green House Psychological Support Centre – with this project, TBC Bank supports disabled children, who receive therapeutic and psychological aid free of charge. The centre treats up to 150 children every day.

Developing financial literacy – money management advice for retail customers
The TV show on money management is TBC Bank's multi-media initiative designed to improve general financial literacy of the Georgian retail consumers. The project utilised old media, new media and live events to maximise its reach and effectiveness, covering three platforms: a weekly TV show on a popular news channel, YouTube tutorials, and live master class events.

The main idea of the project is to provide customers with advice on managing their personal finances, including using products offered by the banks and other financial institutions, such as insurance companies. The overall goal is to raise financial literacy among the Bank's existing and potential retail clients so that they can better utilise and service their financial resources and obligations.

From left to right: Badri Japaridze, Irina Schmidt, Mamuka Khazaradze, Eric J. Rajendra.
In the top row, from left to right: Nicholas Haag, Stefano Marsaglia, Nikoloz Enukidze



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Chairman's Corporate Governance Statement

We believe our advanced corporate governance ensures a fully engaged relationship between our company and our shareholders and stakeholders

Mamuka Khazaradze
Chairman of the
Supervisory Board

Dear Shareholders,

In June 2014, TBC Bank listed its shares on the London Stock Exchange through GDRs. As a public company, we are firmly committed to the achieving standards of corporate governance, which are in accordance with all applicable regulatory requirements, best recommended practice, Basel requirements and the Bank's future development plans.

The Supervisory Board has the ultimate responsibility for the Bank's business, risk strategy and financial soundness, as well as how the Bank organises and governs itself with the goal of ensuring the long-term success of the Bank in order to best serve the needs of shareholders.

In 2014, the Supervisory Board focused on several key issues, including business strategy, corporate governance and risk management. The Supervisory Board reviewed and approved the revised Risk Appetites and Strategy, as well as the new Risk Management Strategic Initiatives. These are discussed in greater detail in our Risk Management Chapter on page 99 and in the Risks, Ethics and Compliance Committee Report on page 91. The Supervisory Board is charged with the responsibility of ensuring that the Bank's Management achieves its strategic objectives. During the year, Management reviewed the Bank's strategy, addressed in greater detail in the Strategic Report on page 18, and confirmed the updated strategy for years 2014-2018.

Even before the Bank's IPO in 2014, TBC was committed to building a robust corporate governance framework supported by its International Financial Institution (IFI) shareholders. Over the past year, the Bank further strengthened its corporate governance by welcoming three new Directors to the Supervisory Board, two of whom are independent Non-executive Directors.

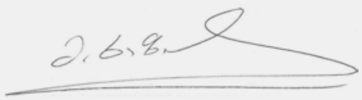
In this Corporate Governance Report, the Bank has prepared a comprehensive review of its corporate governance framework, which includes the Audit Committee Report on page 84, the Supervisory Board Report and Responsibilities on page 73, and the Remuneration Report on page 89. A review of the responsibilities and effectiveness of all committees on the Supervisory Board level begins on page 73.

TBC takes great pride in the fact that it is one of the best and largest employers in the Georgian private sector. The Bank looks to create a working environment where the best people strive to excel in their fields every day. A detailed report on our employee relations is available on page 26.

We believe our advanced corporate governance ensures a fully engaged relationship between our company and our shareholders and stakeholders. The Bank's comprehensive investor communications programme has allowed its top management to meet with investors and shareholders on three separate roadshows since our listing in June 2014. Moreover, our Investor Relations website offers transparent, accurate and timely information to our investors. More information on the dialogue between TBC Bank and its shareholders is provided on page 196.

Finally, in 2014, the Supervisory Board continued to assess its effectiveness and found that it successfully fulfilled its responsibilities and operated effectively throughout the year.

The following Supervisory Board Report is approved by the Supervisory Board of TBC Bank.



Mamuka Khazaradze
Chairman of the Supervisory Board

Supervisory Board Report and Responsibilities

The Bank's governance structure establishes proper incentives for the Supervisory and Management Boards to pursue objectives that are in the interest of the Bank, and effectively manage the relationship between the Management Board, the Supervisory Board, shareholders and other stakeholders.

TBC Bank's corporate governing bodies are the General Meeting of Shareholders, the Supervisory Board and the Management Board. A number of appropriate committees have been established at both the Supervisory and Management Board levels.

The General Meeting of Shareholders is the supreme governing body of the Bank, with authority over all key decisions. It elects the Bank's Supervisory Board, which is responsible for the supervision and appointment of members to the Management Board.

The Management Board is responsible for TBC's day-to-day management, with the exception of functions reserved to the General Meeting of Shareholders and the Supervisory Board. The Supervisory Board appoints the members of the Management Board for renewable terms of four years and is also in charge of their dismissal. Banking regulations contain certain limitations as to who may become a member of the Management Board and criteria that each director must fulfil. The scope of authority of each member of the Management Board is defined by a contract entered into with the director upon appointment.

The Supervisory Board plays a key role in the Corporate Governance of the Bank. It has ultimate responsibility for the Bank's business, risk strategy and financial soundness, as well as how the Bank organises and governs itself. The Supervisory Board appoints and supervises Management to ensure both the achievement of the Bank's strategic objectives and Management's ongoing response to the risks inherent in the business activities. The Supervisory Board is also responsible for the appointment, evaluation and compensation of the Management Board members.

In addition, the Supervisory Board is responsible for the following specific areas:

- approving purchases or disposals by TBC Bank that exceed 3% of the Bank's equity;
- approving the issuance of procura (general power of attorney) by the management of TBC Bank;
- approving the establishment and liquidation of TBC Bank's branches;
- authorising any borrowing by TBC Bank if such borrowing exceeds 20% of the Bank's equity;
- electing, changing or removing the external auditor;
- approving the listing of TBC Bank's shares on a stock exchange;
- approving investments by TBC Bank, which exceed an aggregate total amount of USD 1 million;
- approving any sale, lease, exchange, transfer, pledge, contribution or other disposition of the assets of TBC Bank and certain of its subsidiaries exceeding 5% of the book value of TBC Bank;
- approving disposals of TBC Bank's assets, which exceed 5% of the Bank's equity;
- approving TBC Bank's financial indicators for the following year, including its business plan or annual budget; and
- approving the entering into related party transactions above USD 100,000.

Full responsibilities of the Supervisory Board are detailed in the Board Regulation, available through the Investor Relations website.

The Supervisory Board consists of seven members elected by the General Meeting of Shareholders for a term of four years each. The Chairman and the Deputy Chairman of the Supervisory Board are elected by a simple majority of votes. The Chairman of the Supervisory Board may not simultaneously hold the position of Chief Executive Officer of TBC Bank. The following table provides details on the Supervisory Board members and their respective appointment year.

Governance

Supervisory Board Report and Responsibilities

Continued

Supervisory Board Composition

Name	Position	Initial Year of Appointment	Current Terms Year of Appointment	Current Terms Year of Expiration
Mamuka Khazaradze	Chairman of the Supervisory Board	1992	2013	2017
Badri Japaridze	Vice-Chairman of the Supervisory Board	1992	2013	2017
Eric J. Rajendra	Member	2010	2014	2018
Irina Schmidt	Member	2012	2012	2016
Nicholas Dominic Haag	Member	2013	2013	2017
Stefano Marsaglia	Independent Member	2014	2014	2018
Nikoloz Enukidze	Independent Member	2013	2013	2017

* Emile Groot resigned in December 2014 and Stefano Marsaglia was appointed in his place.

Biographies for members of the Supervisory Board currently in office can be found on page 79. TBC Bank Supervisory Board includes two independent Directors as Board members. With three more members appointed as Board Directors by international financial institutions, the majority of the seven members of the Board are either independent or appointed by international shareholders, in line with the Bank's commitment to high standards of corporate governance.

In 2014, the Supervisory Board met 45 times: four in person and on 41 occasions additionally discussed relevant items via email and teleconference.

Name	Scheduled Meetings Eligible to Attend	Scheduled Meetings Attended	Extraordinary Meeting eligible to participate	Extraordinary Meeting participated
Chairman				
Mamuka Khazaradze	4	4	41	41
Deputy Chairman				
Badri Japaridze	4	4	41	41
Non-executive Directors				
Eric J. Rajendra	4	4	41	41
Irina Schmidt	4	3	41	41
Nicholas Dominic Haag	4	4	41	41
Emile Groot*	1	1	4	4
Independent Members				
Nikoloz Enukidze	4	4	41	41
Stefano Marsaglia	3	3	37	37
Company Secretary				
Irma Dvali				

* Emile Groot resigned in December 2014 and Stefano Marsaglia was appointed in his place.

Application of the Georgian Corporate Governance Code for Commercial Banks
TBC is party to the Corporate Governance Code for Commercial Banks adopted by the Banking Association of Georgia in September 2009, which was drafted with the guidance of the IFC, one of the Bank's shareholders, based on internationally recognised principles of good corporate governance. Compliance with the CG Code for Commercial Banks is not mandatory; however, in February 2014 TBC revised its internal regulations to ensure compliance with the CG Code and since then, TBC has complied with all relevant provisions set out in the above Code.

Supervisory Board Performance in 2014

In addition to the regular functions described above, the following list highlights how the Board spent its time in 2014:

Strategy and Budget

- continued to monitor the Bank's achievement of strategic objectives;
- continued to monitor the Banks achievement of its budget;
- discussed and approved the updated Strategy of the Bank for the 2015-2019 period; and
- discussed and approved the new budget for 2015 as well as a high level budget for 2015-2019.

TBC Bank IPO

- discussed and approved TBC Bank's IPO plan;
- attended presentations for the selection of the investment banks;
- discussed and approved investment banks for the IPO;
- discussed and approved other members of the syndicate teams for IPO such as Legal counsel, broker, PR agent and the depositary bank;
- approved the engagement of the Bank's external auditor, PwC, for the IPO-related non-audit services;
- closely monitored the progress of the IPO;
- attended presentation, investor feedback and price expectations of the IPO; and
- discussed and approved final placement terms and conditions.

Corporate Governance

- discussed and approved the changes to the Management Board Regulation;
- discussed and approved the changes to the Supervisory Board Regulation;
- discussed and approved the changes to the Committee Charters and committee composition; and
- discussed and approved changes to the Supervisory and Management Boards.

Risk Management

- discussed and Approved new Risk Management Strategic Initiatives, updated Risk Appetites Statement and Risk Strategy;
- reviewed and approved the updated ICAAP document;
- approved a Policy on Environmental and Social Standards and Anti-money Laundering and Anti-corruption Standards; and
- approved the amended version of the Bank Related and Connected Parties Lending and Banking Services Policy.

Management Compensation

- discussed and approved management compensation for the year of 2013 in accordance with the approved Supervisory and Management Board Compensation System; and
- discussed and approved requirement for consultants solicited to develop new Supervisory Board and Management Board Compensation Systems for the years 2016-2018.

Constanta Integration

- engaged with the Management for the Strategy of Constanta integration within TBC Bank group;
- discussed and approved Constanta Merger with TBC Bank as the best strategy for going forward;
- closely monitored the milestones for the merger with Bank Constanta; and
- engaged with the management on the Constanta rebranding process.

Other

- engaged with the Management to develop the Core Banking Transformation Project for the years, where the Board continues to receive monthly updates on progress; and
- discussed and approved the appropriate plan for the Core Banking Transformation Project implementation.

Governance

Supervisory Board Report and Responsibilities

Continued

Succession Planning and Appointments

TBC Bank looks to ensure that the Supervisory and Management Boards consist of highly qualified and skilled members. Policies on the appointment, Term of Office and Resignation of the Supervisory Board Members is provided in Article 2 of the Supervisory Board Regulation. The responsibility to seek and recommend appropriate candidates for Supervisory and Management Board positions, as well as to draft and recommend the Succession Planning policy of the Bank, rests with the Corporate Governance and Nominations Committee. Further information on the Succession Planning Policy is provided in the Nomination Committee performance review on page 90.

Conflicts of Interest

The Charter and The Supervisory Board Regulation incorporate relevant provisions on conflicts of interest for the Board members for appropriate disclosures and approvals. These requirements were fully complied with during 2014.

Principal Activities of the Company

The Bank is a joint stock company limited by shares and was set up in accordance with Georgian regulations. The Bank's registered address and place of business is: 7 Marjanishvili Street, 0102 Tbilisi, Georgia.

Additional information to be considered as part of this Report is presented in the following sections:

Dividend Pay-out Recommended by the Board

On 4 March 2014, the General Meeting of Shareholders approved a distribution in the amount of GEL 26,492,294 to the shareholders (equivalent to 25% of TBC Bank's net profit), which was paid on 4 March 2014. On 26 February 2014, the Supervisory Board approved a resolution, beginning in 2015, to annually distribute 25% of TBC's consolidated net income for the previous year as a dividend to shareholders, provided that the financial standing of TBC Bank allows such distribution.

Indemnity Provision

TBC Bank Directors and Officers are eligible for indemnity provision that includes liability cover from claims that may arise as a result of decisions and actions taken within the scope of their regular duties. The Bank's insurance policy also contains special excess protection for Supervisory Board Members, who may not be eligible for the same indemnities as Management Board Members and other officers.

Political Donations

There were no political donations made during the year 2014.

Risk information on Financial Instruments

Descriptions of all relevant risk management policies are available in note 35 to the Consolidated Financial statements of the Bank.

Post-Balance Sheet Events

Subsequent to 31 December 2014, the Group has completed the legal and operational process of merging JSC Bank Constanta with TBC Bank. The former operations of Bank Constanta will now be undertaken by TBC Bank as the sole legal entity.

On 27 January 2015 the Group acquired a micro loans portfolio with a carrying amount of GEL 37,300 thousand from ProCredit Bank Georgia, the fifth largest bank in Georgia by total assets. The consideration paid amounted to GEL 40,000 thousand.

Likely Future Developments in the Business

Likely future developments in the business of the Bank are discussed in the Strategic Report, available on page 16.

Research and Development in the Business

TBC Bank continuously updates, develops and researches new and existing products and services for all of its business lines as part of its regular course of operations.

Branches Outside the UK

TBC provides a wide range of banking and financial services through 120 branches and offices in Georgia and through its affiliates, including five in Azerbaijan and an affiliate office in Israel.

Acquisition of Own Shares

TBC Bank has not conducted an acquisition of its own shares.

Employees

Disability

TBC Bank gives equal opportunity and creates conditions for employment and career growth to disabled candidates and employees.

Career development and training opportunities are provided to disabled employees at an equal level and scope with all necessary adjustments to fit the special needs of our colleagues.

Employee Involvement

TBC Bank regularly communicates to its employees, providing information on the Bank and its activities, including in relation to financial and economic factors affecting the Bank's performance, and receiving regular feedback from all staff. The Bank implements top-down communication from Supervisory Board to the Management Board and middle management and then to employees using executive presentations, corporate news magazines, intranet content, and various employee appreciation and motivation events organised by the Human Resources department.

In order to accurately assess the attitude and experience of employees, the HR department conducts regular Employee Satisfaction and Engagement Surveys each year, which among other things monitor staff engagement and loyalty. The results are discussed and appropriate action plans are set by the management each year.

Apart from the base salary and additional cash incentives, both the Management Board members and key members of the middle management enjoy bonuses awarded in the form of the Bank's shares under the Long Term Incentive Plan (LTIP).

The Shares are allocated to eligible members on the basis of their performance and performance of their teams. The number of shares allocated depends on delivery against relevant KPIs. Shares are allocated each year, following publication of the audit report.

Company's Capital Structure

The authorised capital of the Bank is GEL 21,236,255 (twenty one million two hundred thirty six thousand two hundred and fifty five Lari). Equity attributable to the owners of the Bank is GEL 1,012,105,000 (one billion twelve million one hundred five thousand). Total Capital Per Basel III local regulation is GEL 947 million. There are 53,090,637 shares authorised, and 49,532,868 shares[a] out of the authorised shares are issued and fully paid.

Following the IPO on 11 June 2014, the founder shareholders and top management are subject to the lock up period during which they are not able to sell or transfer their shares. The period lasts for one year from the IPO date.

Significant ultimate owners of the shares of the bank are Mamuka Khazaradze and Badri Japaridze holding 14.9% and 7.5%, respectively. They hold shares both directly in the capital of the Bank and through SPVs. For their biographies please see page 79.

The rights attached to shares awarded under the LTIP described above, are subject to the condition of continuous employment. Initially, shares are subject to restrictions on sale and transfer to any party and do not provide for voting rights, but they are eligible for dividends. After one year of continuous employment from the date of registration of the shares in the name of the beneficiary, restrictions are removed with respect to 10% of the shares awarded, after two years, the restrictions are removed with respect to another 10% of the shares, and after three years all shares become free from restrictions.

The LTIP also provides additional provisions governing entitlement to shares and obligations to return the shares in case of termination or expiry of service contract or employment contract.

Securities Carrying Special Rights

There are no securities carrying special rights with regard to control of the company.

Restrictions on Voting Rights

Shares granted and not vested to the top management and middle management of the Bank as part of the LTIP described above, do not have voting rights until vesting conditions are met. As of March 2015, these shares represented 1.1%[b] of the issued and paid shares of TBC Bank.

There are no restrictions on voting rights, except that the employees cannot enjoy the rights on the shares under the employee share scheme until the shares are vested.

Appointment and Replacement of Directors

The General Meeting of Shareholders is authorised, by a simple majority of votes, to amend the articles of the Bank and to appoint or replace the directors.

Change of Control

Contracts with most of the Bank's lenders usually contain a change of control clause which usually requires the lenders consent before the change of control occurs. Contracts with top management contain a special provision for increased compensation if the loss of office occurs because of a change of control.

Going Concern Basis

The Directors confirm that they consider it appropriate to adopt the going concern basis of accounting, and there are no material uncertainties to the Bank's ability to continue to do so for the foreseeable future from the date of approval of the financial statements.

(a) The number reflects the grant of bonus shares to a number of senior employees of TBC Bank, in line with the Bank's Long-Term Incentive Plan, conducted on 5 March 2015.
(b) The figure reflects the grant of bonus shares to a number of senior employees of TBC Bank, in line with the Bank's Long-Term Incentive Plan, conducted on 5 March 2015.

Governance

Supervisory Board Report and Responsibilities

Continued

Risk Management and Internal Control

The Supervisory Board is responsible for the effectiveness of the risk management and internal control in TBC Bank. TBC Bank has identified major risks faced by the Bank, has determined the Bank's risk appetite and developed a risk strategy. Key risks faced by the Bank are Credit risk, Operational risk, Market risk, Liquidity risk, Interest Rate risk on banking book, Strategic and Reputational Risks.

Management has set up control system in order to ensure that key risks are properly managed and mitigated. A number of policies are approved at Supervisory Board level. Key performance metrics are regularly reported to the Supervisory Board and/or to the Risk, Ethics and Compliance Committee.

In accordance with Basel II Pillar 2 requirements, the Bank performed in depth Internal Capital Adequacy Assessment Process (ICAAP); the output document was actively debated by the Supervisory Board and Risk, Ethics and Compliance Committee and was submitted to the National Bank of Georgia for further review in September 2014.

Further information on the Bank's risk management is available in the Risk Management Report on page 99.

This openwork bronze buckle was accidentally discovered in 1962 during vineyard tilling. The beautiful artefact has an aesthetically pleasing, airy and gracious composition and is a wonderful example of highly artistic and delicate craftsmanship in the wider collection.

Members of the Supervisory Board

Mamuka Khazaradze
Chairman of the Supervisory Board
Mr Khazaradze graduated from the Technical University of Georgia in 1988 and also holds a diploma from Harvard Business School. Between 1988 and 1989, he worked as an engineer at the Projecting-Technological Scientific Research Institute in Tbilisi. In 1991 and 1992, respectively, he founded and became the President of TBC Bank. In 1995 he founded IDS Borjomi Georgia, Borjomi Beverages Co. N.V., where he held the position of President until 2004, and between 1999 and 2002, he acted as Vice Chairman of the Supervisory Board of Microfinance Bank of Georgia. In 2004, Mr Khazaradze also founded the Georgian Reconstruction and Development Company, of which he is still the President. Between 1997 and 2007, he was also Vice President of the Olympic Committee of Georgia. Since 2000 he has been a partner and the President of NGO New Movement, and since 2010 has served as the Chairman of the Board of the American Academy in Tbilisi and the Chairman of the Supervisory Board of Lisi Lake Development. In 2014, Mr Khazaradze was recognised as Entrepreneur of the Year in Georgia by Ernst & Young, the year this prestigious awards programme was launched in the country. Mr Khazaradze has been the Chairman of the Supervisory Board since TBC Bank's incorporation in 1992.

Badri Japaridze
Deputy Chairman of the Supervisory Board
Mr Japaridze graduated from the faculty of psychology of Tbilisi State University in 1982 and also holds a postgraduate qualification from the Faculty of Psychology of Moscow State University. In 2001 he also completed an executive course at the London School of Economics and Political Science. Between 1990 and 1992, Mr Japaridze was a member of the Parliament of Georgia. In 1992, he was appointed as Head of the Foreign Relations Department at TBC Bank and was appointed as Vice President of TBC Bank in 1993. In 1996, he was elected as Chairman of the Board of TBC TV LLC, a position he still retains. Since 1995, he has held the position of Vice President of IDS Borjomi Georgia, Borjomi Beverages Co. N.V., of which he is a co-founder, and acted as a member of the Board of that company between 2004 and 2010. In 1995, Mr Japaridze was elected to TBC Bank's Supervisory Board and has held the position of Vice Chairman of the Supervisory Board since 1996. Since 2004, he has also acted as a member of the Supervisory Board of the American Chamber of Commerce in Georgia and the Georgian Reconstruction and Development Company, of which he is co-founder. Mr Japaridze was elected to the Supervisory Board of the EU-Georgian Business Council in 2006 and later became the Vice Chairman. In 2008, he was elected to the Supervisory Board of Geoplant, a position he retains today. Mr Japaridze is also the Chairman of the Supervisory Board of TBC Kredit, and a member of the Supervisory Board of TBC Leasing and Bank Constanta.

Governance

Supervisory Board Report and Responsibilities

Continued

Eric J. Rajendra

Member of the Supervisory Board

Mr Rajendra graduated from Brandeis University (B.A.), earned his M.A. at the Fletcher School in 1982 (Tufts University in cooperation with Harvard University) and conducted postgraduate research at INSEAD Business School in the areas of financial markets and institutions. Mr Rajendra is also a graduate of the Australian Institute of Company Directors and was formerly an Adjunct Professor of Strategy at INSEAD. During 2005-2014, he held the position of Senior Advisor to the IFC and has served as a Board Director or Consulting Advisor on selected emerging markets financial institutions where the World Bank Group has an equity interest, as well as leading strategic initiatives for the firm. Prior to joining the IFC, he was a Vice President at Capgemini and a Vice President at Electronic Data Systems; in both institutions he was a key leader of the financial services practice. From 2010 to 2012 he was a member of the Board of Directors at Orient Express Bank. During 2006-2014 he was a member of the Board of Directors of LOCKO-Bank where he is also the Chairman of the Audit and Risk Committee. He started his career as a banker at JP Morgan Chase Bank in 1982 and later became a partner at McKinsey & Company. Mr Rajendra was appointed to the Supervisory Board in 2010.

Irina Schmidt

Member of the Supervisory Board

Ms Schmidt graduated from St. Petersburg State University with a degree in foreign languages and literature in 1994 and obtained DES from Geneva University in 1999 and an MBA from Europa-Institut (Saarland University) in 2001. Since 2001, Ms Schmidt has held a number of positions in DEG, including Investment Manager and Senior Investment Manager with Power of Attorney (procura). Since 2007, Ms Schmidt has served as a Vice President of DEG in Europe/Middle East/Central Asia with responsibility for new business development, project evaluation and the management of DEG's portfolio in the Caucasus region. Since 2012 she has been a Board member of Bank Respublika in Azerbaijan. Ms Schmidt was appointed to the Supervisory Board (as the nominee for DEG) in 2012.

Nikoloz Enukidze
Independent Member of the Supervisory Board

Mr Enukidze graduated from Tbilisi State University with a degree in physics in 1993 and obtained an MBA from the University of Maryland in 1996. Mr Enukidze has served as Managing Director of Corporate Finance for Concorde Capital, a leading Ukrainian investment banking firm; Assistant Director at ABN AMRO Corporate Finance in London for four years; Senior Manager of Business Development of Global One Communications LLC based in Reston, Virginia; and three years at ABN AMRO Corporate Finance in Moscow. After years of experience in the financial services industry, Mr Enukidze served as Vice Chairman of the Supervisory Board of Bank of Georgia and was one of the key people leading the bank to a successful IPO on the London Stock Exchange, the first ever IPO in London for a company from the Caucasus region. In 2008, Mr Enukidze was appointed as Chairman of the Bank of Georgia Board and he led the bank through the international and local financial crisis. Prior to joining TBC, Mr Enukidze also served as Chairman of the Supervisory Board of Galt & Taggart Securities. At present, as founder of Nine Oaks Advisors, Mr Enukidze acts as financial advisor and investor on projects in Central and Eastern Europe. Since 2011 he has also served as an independent Director of the Supervisory Board and member of the Audit Committee of TMM Real Estate Development PLC, a Ukrainian real estate development company listed on the Deutsche Börse since 2007, and since 2014 as the Chairman of the Supervisory Board of JSC Caucasus Minerals. Mr Enukidze was born and raised in Tbilisi and is a British national. Mr Enukidze was appointed to the Supervisory Board as an independent member in 2013.

Nicholas Dominic Haag
Member of the Supervisory Board

Mr Haag earned an M.A. from the University of Oxford with a degree in modern studies in Geography in 1980. Mr Haag has 32 years of experience working in the financial services industry, with a significant emphasis on equity capital markets. His experience includes seven years at Barclays Bank between 1980 and 1987 in various capital markets and project finance roles, including as the Head of Equity Syndicate, Barclays de Zoete Wedd (BZW); ten years at Banque Paribas, Paribas Capital Markets between 1989 and 1999, initially as Deputy Head of Global Equity Capital Markets and later Senior Banker and Head of European Client Coverage (ex-France); two years at ING Barings between 1999 and 2001 as Managing Director and Global Head of Technology Banking Group; six years at ABN AMRO between 2001 and 2007 based in London as the Global Head of Technology Banking, Member of Global TMT Management Committee, Senior Managing Director and Member of the Senior Credit Committee; four years with the Royal Bank of Scotland between 2008 and 2012 and RBS Hoare Govett as Managing Director, Head of London Equity Capital Markets and Member of the Global Equities Origination Management Committee. Since 2012, he has served as a senior independent adviser to the Chairman of the Management Board and since 2013 as a member of the Supervisory Board of Credit Bank of Moscow and a financial consultant specialising in capital raisings and stock exchange flotations. Since 2012 he has acted as sole Director of his own consulting company, Nicdom Limited. Mr Haag was appointed to the Supervisory Board in 2013.

Governance

Supervisory Board Report and Responsibilities

Continued

Stefano Marsaglia

Independent Member of the Supervisory Board

Mr Marsaglia graduated from Turin University with a degree in Economics and Commerce in 1978. Mr Marsaglia has 35 years of experience in the financial services industry with particular expertise in corporate and investment banking in Europe and Latin America. In 1987, he was appointed Deputy Managing Director and Head of Investment Banking for Southern Europe at UBS and served as Assistant Director at Morgan Grenfell from 1983 to 1987. Mr Marsaglia acted as Managing Director, Global Head of Financial Institutions and Co-Head of Investment Banking for Europe at Rothschild between 1992 and 2010, and as the Chairman of Global Financial Institutions of the Investment Banking Division at Barclays Bank, London between 2010 and 2014. Mr Marsaglia currently serves as Executive Chairman of Corporate and Investment Banking at Mediobanca, London. Mr Marsaglia was appointed to the Supervisory Board in 2014.

Responsibility of the Supervisory Board

The members of the Supervisory Board confirm their engagement in preparing the annual report and accounts in conformity with the detailed responsibilities provided in Article 10 of the Georgian Supervisory Board Regulation, and state that they consider the report and accounts, taken as a whole, as fair, balanced and understandable and provide the information necessary for shareholders to assess the Bank's performance, business model and strategy. The Independent Auditor's Report is available on page 112.

Each of the members of the Supervisory Board, whose names and functions are listed on pages 79 to 82, confirm that, to the best of their knowledge and belief:

a) the financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of TBC Bank and the undertakings included in the consolidation taken as a whole; and

b) the management report includes a fair review of the development and performance of the business and the position of TBC Bank and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

The members of the Supervisory Board confirm that, so far as they are aware, there is no relevant audit information of which the auditors are unaware and the Directors have taken all steps that they ought to have taken as a member of the Supervisory Board in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

On behalf of the Supervisory Board,

Mamuka Khazaradze

Chairman of the Supervisory Board

Supervisory Board Committees

In line with international standards of best practice, Basel requirements, and the Bank's future development plans, TBC Bank has established several committees; the **Risks, Ethics and Compliance Committee, Remuneration Committee, Corporate Governance and Nomination Committee and Audit Committee**.

These Committees assist the Supervisory Board and the Bank in improving the structures and processes in place for managing the Bank, the relationship between the Management, the Supervisory Board, shareholders, and other stakeholders.

Please find the respective Committee Reports on the following pages:

The following table sets out Supervisory Board Committee membership:
Chairperson   Member

Outside Directors	Audit Committee	Remuneration Committee	Corporate Governance and Nomination Committee	Risks, Ethics and Compliance Committee
Badri Japaridze			Member	Member
Eric J. Rajendra	Member		Chairperson	
Irina Schmidt		Chairperson	Member	Member
Nicholas Dominic Haag	Chairperson	Member		Member
Nikoloz Enukidze	Member	Member	Member	Chairperson
Stefano Marsaglia	Member			

Governance

Audit Committee Report

Committee Membership and Qualifications

I am pleased to have taken over the chairmanship of the Audit Committee in March 2014 following the retirement of Emile Groot from the Board. I was first appointed as a member of the Committee in 2013. Emile helped to establish the Bank's Audit Committee, chairing it in the years since 2011, leading up to the Bank's successful IPO in June 2014. I would like to express our deep appreciation of Emile's contribution. In addition to Emile, the Audit Committee also saw the resignations in December 2014, again following the Bank's IPO, of its remaining members who were not on the Supervisory Board of the Bank, Givi Lemonjava and Levan Zuroshvili. They had originally joined the Committee in the context of Georgia's Banking Law which stipulates that audit committees should include only independent members who are not on a bank's board; TBC subsequently obtained a derogation from the National Bank of Georgia to allow inclusion of Supervisory Board committee members in line with international norms. The Committee is very appreciative of their good work over many years and I am pleased to report that Givi has agreed to stay on as adviser to the Committee.

The Committee now comprises in total four Non-Executive directors of whom two are INEDs, Nikoloz Enukidze (joined the Committee in 2013) and Stefano Marsaglia (joined in June 2014); both nominations were considered and approved by the Board's Corporate Governance and Nomination Committee. The other two, Eric Rajendra (appointed to the Committee in 2012) and myself, were originally nominated to the Supervisory Board by two of the Bank's equity investing IFIs, IFC and EBRD respectively. Nikoloz has in the past been Chairman of Bank of Georgia and Stefano is Executive Chairman of Corporate and Investment Banking at Mediobanca having been Chairman of the Global Financial Institutions Group at Barclays Corporate and Investment Bank.

All current members of the Committee (see biographies on pages 79 to 82 of the Annual Report) possess a detailed understanding of the financial sector, with backgrounds primarily in banking, and most serve or have served on (or chaired) other banks' audit committees. The Committee therefore has sufficient recent and relevant expertise to operate effectively and calls upon other expert internal and external resources where required.

Committee Role and Meetings

The Audit Committee, with delegated authority from the Supervisory Board, has multiple areas of responsibility and focus. Its first priority is to ensure the integrity (accuracy and full disclosure) of the Bank's financial reporting, looking hardest at areas of reporting risk and supervising the proper interpretation of accounting rules. Secondly, the Committee oversees the Bank's systems of internal control in relation to financial reporting, fraud, and compliance with prevailing laws and regulations, also evaluating management's competence in this task. The Committee relies heavily on Internal Audit to provide an objective and professionally sceptical view of how the Bank is handling a number of key reporting and record-keeping risks. The Committee also makes recommendations on the appointment and remuneration of external auditors and seeks to maximise the value of the external audit relationship.

In relation to risk, the Bank has a separate Risk committee (on which I sit) and, while there are areas of overlap (mostly in relation to operational risk) with the jurisdiction of the Audit Committee, the two committees each have clearly defined responsibilities and cooperate extensively to minimise duplication and ensure nothing is overlooked.

The Audit Committee has joined other Supervisory Board committees of the Bank in building an active direct dialogue with the National Bank of Georgia as we regard providing ongoing comfort to and obtaining feedback from the regulatory authorities as part of our role of supervising the best interests of all stakeholders in the Bank.

The Committee is fully conscious of the Bank's new status as a listed company on the London Stock Exchange – the heightened investor and regulatory scrutiny that this rightfully brings as well as pressures on management to show performance – and has stepped up its oversight function. The Bank is continuing to grow at a fast pace and this growth is likely to be sustained so long as the Georgian economy continues to prosper. This growth brings challenges to the accounting and control infrastructure of the Bank at the same time as TBC continues to reweight its business towards its Retail, Micro and SME divisions. The Audit Committee remains vigilant about the implications of these changes and works to ensure that the Bank's systems keep pace. Likewise, financial reporting disclosure requirements have been steadily increasing for a number of years, in tandem with the complexity of accounting standards.

The Committee met formally in person in each quarter of 2014 (February, June, September, December), in accordance with the Bank's quarterly financial reporting cycle and the cycle of Supervisory Board meetings. There were regular interim telephone meetings, mostly around planned releases of financial data, and also ad hoc communications between members and with Internal Audit, External Auditors and management.

The table below describes the committee composition and formal meeting attendance for 2014:

Audit Committee Composition

Name	Position	Year of Appointment	Scheduled Meetings Eligible to Attend	Scheduled Meetings Attended	Additional Meetings Eligible to Attend	Additional Meetings Attended
Emile Groot	Previous Chairman *	2011	1	1	-	-
Nicholas Dominic Haag	Chairman	2014	4	4	2	2
Givi Lemonjava	Previous Member**	2002	4	4	2	2
Eric J. Rajendra	Member	2012	4	3	2	2
Levan Zuroshvili	Previous Member***	2002	4	4	2	2
Nikoloz Enukidze	Member	2014	3	3	2	2
Stefano Marsaglia	Member	2014	2	1	2	2

* Resigned from March 2014
** Resigned from December 2014
*** Resigned from December 2014

The Bank's CEO, CFO and other management board members plus the Chief Compliance Officer were on occasion invited to participate in Audit Committee meetings together routinely with the Head of Internal Audit. Minuted meetings generally took place on the day prior to Supervisory Board meetings and the Audit Committee made a formal report as a separate agenda item in the latter. In addition, Audit Committee members attended a number of conferences and education programmes including a tailored IFRS workshop and training on internal audit best practices (both provided by PwC) to allow Committee members to stay ahead of evolving international accounting regulations and control improvements. Further training is expected in 2015 to prepare myself and colleagues for the continuing high velocity in changes to accounting, reporting and governance standards.

The Audit Committee Policy of the Bank is set out on TBC's internet web site at the Investor Relations website.

This Policy document was last reviewed, amended and agreed by the Committee in December 2014 and approved by the Board in March 2015.

Assessment of Effectiveness

The Audit Committee Effectiveness Review is conducted every year by the Board and the individual Committee members in order to assess the Audit Committee's performance, as per international best practice standards.

The review conducted for the year 2014 was completed in March 2015 and concluded that the Committee operates effectively and carries out all its responsibilities as laid out in its Charter.

Planning and Release of Financial Statements

Starting from second half of 2014, as one of the initiatives for further improving the financial reporting process, the Audit Committee assumed the role of comprehensively pre-vetting all audited and auditor-reviewed financial releases. Accordingly, the Audit Committee reviewed during the year the releases of half-year and full-year financial statements, making recommendations to the Supervisory Board to approve these. The Committee also had pre-release sight of the third quarter results and held discussions with management about these. In respect of 2014, the Audit Committee has reviewed all data and narrative comment and concluded that the Annual Report and financial statements are complete, clear, balanced and consistent with the Committee's understanding of the facts. Likewise, we considered and are satisfied with transparency on the Bank's liquidity and capital adequacy.

Governance

Audit Committee Report

Continued

To meet the new IPO related best practice requirements regarding the speed and level of disclosure of the financial results, we are pleased that we have been able to accelerate reporting of our 2014 quarterly, semi-annual and annual statements as well as to increase the depth of these reports.

The Audit Committee held multiple 2014 audit planning meetings with PwC during the course of the year, commencing formal audit planning in June. The Audit Committee had the opportunity, without management present, to highlight areas it wished the external audit to focus on, flagging relevant issues and trends. The Committee has evolved towards a policy of regular quarterly status discussions with PwC prior to each Supervisory Board meeting, proactively and mutually addressing any material audit or control issues. PwC has started to attend parts of Supervisory Board, Audit Committee as well as Management Board meetings of the Bank. In addition, as Chairman of the Committee, I also have regular, candid and free-form private sessions with PwC between Committee and Board meetings.

Areas of Audit Committee Focus

We have assessed the reasonableness and appropriateness of critical accounting policies. The main areas of accounting judgement involved the valuation of loans issued and related impairment charges and loan loss provisions. PwC reviewed portfolio-based provisioning of individually-significant loans on a sample basis and also collectively-assessed provisions in respect of individually non-significant loans. The Audit Committee has reviewed assumptions around these provisions and been provided with regular updates on problem and watch list loans as well as related collateral assumptions. We have taken comfort by back-testing the actual sale prices achieved on certain realised collateral assets. We have also reviewed changes to the aggregate proportion of over- and under-collateralised loans within the Bank's total portfolio.

The Audit Committee has additionally sought clarification on a range of other significant topics including the valuation of investment properties, the accounting treatment post-IPO for share based payments under the Bank's management compensation plan, the amortisation and useful life of tangible and also intangible (e.g. software licenses) assets and the proper accounting for repo (sale and repurchase) agreements. Other areas of focus and discussion with management and internal and external auditors have included the classification of interest income on impaired loans as well as the nature and extent of off balance sheet commitments and related party transactions including the comprehensive identification of the latter. We have looked at the impact of changing tax legislation across the Bank's relevant geographies and the accounting treatment for the Bank's fast-growing financial leasing business.

As noted, the Audit Committee has challenged underlying assumptions and in all cases PwC and management have satisfactorily explained their methodologies used and there were no material disagreements arising. We have also found it useful to discuss materiality thresholds with the external auditors and with management.

Control Environment

We have reviewed the approach and extent of internal control testing by management and internal and external auditors. The Committee spent considerable time in 2014 seeking to ensure that the Bank's internal controls are sufficiently robust, working with Internal Audit to track closely any identified shortcomings and scrutinising remediation follow-up with vintage analyses being carefully maintained. KPIs in respect of the reduction of identified audit deficiencies, however minor, have been cascaded down to branch and departmental level and also included in KPIs for members of the Management Board. We note that in the second half of 2014 there was evidence of a resulting improvement in the prompt resolution of any such issues.

At our request, PwC has advised us that, consistent with prior years, their audit work included testing of the Bank's information technology systems controls and, in particular, testing of IT security, programme maintenance and operational controls as well as selected application controls over interest, commissions and treasury cycles with related balance sheet items. For avoidance of doubt, the scope of this testing was limited to that necessary for the audit of the financial statements rather than as a separate engagement. PwC also advised us that the audit work additionally included a review of the Bank's fraud risk assessment procedures, again evaluating controls and introducing an element of unpredictability in their audit procedures.

One area we continue to monitor is management compensation, confirming an appropriate balance of incentives which, whilst motivating, do not create potential risks for exaggerated financial reporting. TBC operates an overlapping committee structure of members and it is helpful that Nikoloz Enukidze and I both sit on the Bank's Remuneration Committee.

As noted, we scrutinised relevant related party transactions to ensure that they were carried out on an arm's length basis and did not impact normal financial reporting metrics of the Bank. We are comfortable that management and the Supervisory Board have an adequate process in place to identify and record related parties.

Another area we have paid attention to is the integrity of financial information obtained from borrowers at loan application and monitoring stages, validating appropriate controls implemented by management.

Under TBC's committee structure, ethical standards are supervised by the Risk, Ethics and Compliance Committee. However, the Audit Committee liaises closely with it, there is substantial cross-committee membership (including myself) and I am satisfied that the prevailing ethical climate and safeguards of the Bank are generally supportive of the control environment, in terms of prevailing rules, 'tone at the top' and equally important 'message in the middle'.

Constanta/Subsidiaries

Plans were made for the full integration of Constanta Bank, upon merger, into the audit and control framework of the Bank, combining operations and standardising controls. Following completion of the merger with Constanta, Internal Audit is now performing its roles in respect of this bank with integration of relevant personnel nearly complete. In addition, during the year greater emphasis was placed by Audit Committee and Internal Audit on monitoring controls within other subsidiaries of the Bank, particularly TBC Kredit. The merger with Constanta leads to certain changes in this bank's traditional systems of business process and record-keeping and the Audit Committee will continue to keep a close eye on this evolution.

External Auditor Independence and Reappointment

The Audit Committee is responsible for the assessment of the performance, objectivity and independence of the external auditor and the delivery of a quality audit. Each year the Audit Committee is required to consider the reappointment of the auditors, the suitability of the lead engagement partner as well as the wider audit team and the remuneration and terms of engagement for the chosen auditor. 2014 has been the seventh year in which PwC have audited the Bank. The fact that we have a substantially new Audit Committee with a new Committee chairman has allowed us to take a fresh look at the PwC relationship with new people challenging PwC's and management's interpretation of accounting and control features of the Bank. We remain satisfied that PwC continues to offer an independent, professional and cost-effective service. We reached this decision on the basis of their openness to challenge, our perception of their proper independence from management, the very low level of prior year financial restatements and PwC's proven ability to meet our tight reporting deadlines. The Committee also noted that the PwC team working onsite, including the audit manager and the audit partner, have been changed during the firm's period of incumbency. 2014 is the first year for the current audit manager and the fourth year for the audit partner on TBC. The multi-country location of key members of the PwC team is not ideal in terms of accessibility but we do not consider that this impacts the overall quality of the audit, note that several members of the PwC team are based in Tbilisi and do not see another firm providing any significantly better geographic footprint. It is the Committee's current intention, subject to suitable contract terms, to recommend that we proceed with PwC for the year 2015 audit.

In 2014 the Bank hired PwC for only small audit-related training assignments and for non-audit services directly connected to the IPO, notably running an IPO readiness diagnostic and the provision of relevant comfort letters where there were natural synergies with the audit work performed. Other Big 4 vendors were used to provide other non-audit advisory services, notably Ernst & Young and Deloitte. The Audit Committee and management are in agreement that we should look to these other providers for future non-audit services where they offer an economically and professionally equivalent alternative. The new Audit Committee policy draft formally introduces new rules on the engagement and remuneration of the Bank's external auditor in relation to the performance of non-audit services. Essentially, we will only use PwC for non-audit services where such a contract has been pre-cleared with the Audit Committee and where there is either a clear synergy with PwC's audit role or where PwC offers superior competence or materially better commercial terms. As stated, we remain satisfied that PwC demonstrates a sufficient degree of independence and objectivity in its role as the Bank's external auditor.

Internal Audit

The Committee has taken a fresh look at the role and competencies of the Internal Audit department and is satisfied that it is fit for purpose as a "3rd line of defence". Internal Audit currently has sufficient budget and resources to perform its role. The independence from management of the Internal Audit function in its reporting line and direction has been reinforced; Internal Audit now reports solely to the Committee with the latter also determining the former's budget and compensation. The Audit Committee has demonstrated to management its clear empowerment of Internal Audit. The Audit Committee meets regularly with the Head of Internal Audit with no management present, and benefits from the department's objective assurance and insights. As chairman of the Committee, I am in at least monthly contact with the Head of Internal Audit. The Committee routinely reviews Internal Audit's annual and rolling 3 year plan, provides feedback on it and authorises any changes to its scope. We provide targets for and formal assessment of Internal Audit and ensure that it is effective, suitably embedded in the organisation, respected by management and of use to them. The head of Internal Audit now routinely attends monthly Management Board meetings.

Internal Audit has created scales of criticality and a graduated escalation procedure has been put in place to allow it to rapidly alert me and the Committee to any pressing issues that have come to light. The Bank's Internal Audit Charter was updated in December. We have encouraged Internal Audit to take an increasingly 'risk-based' approach to its work, prioritising a hierarchy of higher-risk areas. Sample sizes for its audits have risen significantly in 2014; this has provided extra reassurance to the Committee.

Governance

Audit Committee Report

Continued

The Bank has recruited a small number of additional Internal Audit staff including a specialist internal IT auditor. It is in the process of acquiring Internal Audit automation software to give it the capability for less manual and more continuous audit testing and tracking. In accordance with international trends, and in anticipation of more automation of areas of its work, Internal Audit has increasingly been assuming responsibilities beyond a pure 'policeman' role. It has, for example, been helping to validate the integrity of the Bank's Basel report generation process as well as assisting in testing internal controls over TBC's financial reporting.

The intention is for Internal Audit's work to become more flexible to respond to changes in the Bank's operational, technological and organisational structures and environment by building in a time 'cushion' allowing it to address any urgent and unexpected developments. In addition to its scheduled audit of head office, service centre and branch units, the intention in 2015 is for Internal Audit to focus further on critical areas including the Bank's provisioning policy, collateral valuation methodology, loan rating model, its financial leasing activities, the quality of its MIS systems, business continuity and cybersecurity as well as the control of outside service providers.

Training was given a high priority in 2014. Almost all managerial staff in Internal Audit have been enrolled in preparing for exams to become at least Level 1 Certified Internal Auditors, an accreditation process run by the international Institute of Internal Auditors. Internal auditors have received training from PwC on emerging global trends in Internal Audit best practice.

It is intended to commission an external assessment of the performance of Internal Audit within the next two years, in accordance with the standards recommended by the Institute of Internal Auditors.

Nicholas Dominic Haag
Chairman of the Audit Committee

Governance

Remuneration Committee Report

The Remuneration Committee advises the Supervisory Board on the compensation system for the Supervisory and Management Boards, including reviewing the achievements of and determining compensation for the Supervisory Board and Management Board, the heads of TBC Bank's business segments as well as for certain employees of the bank. The Remuneration Committee is also responsible for approving members of the long-term management incentive program and supporting its development, setting the compensation policy relative to the dismissal of key members of the management, and approving annual reports of remuneration policy and practice.

The Remuneration Committee consists of three members of the Supervisory Board. Members meet on a quarterly basis and schedule additional meetings when appropriate. The Committee is chaired by Irina Schmidt.

The Remuneration Committee Policy of the Bank is set out on TBC's Investor Relations website.

The following describes the Committee composition and meeting attendance in 2014:

Remuneration Committee Composition

Name	Position	Year of Appointment	Scheduled Meetings Eligible To Attend	Scheduled Meetings Attended	Additional Meetings Eligible to Attend	Additional Meetings Attended
Irina Schmidt	Chairman	2012	4	4	3	3
Emile Groot	Member	2012	1	1	–	–
Nicholas Dominic Haag	Member	2013	4	4	3	3
Nikoloz Enukidze	Independent Member	2013	4	4	3	3

Assessment of Work Completed

Approval of Management Remuneration and KPI Assessments
The Committee assessed the Senior Management performance against KPIs and set remuneration in accordance with the Senior Management Compensation System adopted in 2013.

Approval of KPIs for 2015
The Committee discussed and updated the 2015 KPIs for the Senior Management of the Bank in accordance with the Senior Management Compensation System adopted in 2013.

New Compensation System for 2016-2019
The Committee has announced a tender to develop a new compensation system for the year 2016-2019 for the Supervisory Board and Management Board, as well as for the long-term incentive plan for Middle Management. A request for proposals was sent to 13 companies specialising in top management compensation for London Stock Exchange Listed companies. After reviewing several short-listed companies, the Committee selected the consultant that will work on developing the new compensation system during 2015.

Assessment of Effectiveness

The Remuneration Committee Effectiveness Review is conducted every year in order to assess the performance of the Committee. This assessment is carried out by Committee members themselves and by the Supervisory Board as a whole, in line with international standards of best practice in corporate governance. The 2014 Remuneration Committee review has found that the Committee effectively fulfilled all of its responsibilities and obligations.

Remuneration Disclosure

Compensation of the key management and supervisory board members is presented below:

In thousands of GEL	Expense over the six months ended 30 June 2014	Expense over the six months ended 30 June 2013	Accrued liability of 30 June 2014	Accrued liability of 31 December 2013
Salaries and bonuses	4,448	4,105	1,678	3,798
Cas settled bonuses related to share-based compensation	490	919	490	1,692
Equity-settled share-based compensation	953	926	–	–
Total	**5,891**	**5,950**	**2,168**	**5,490**

Share based payments policy and cumulative shares awarded are available from note 16 of the Consolidated Financial Statements of the Bank.

Irina Schmidt
Chairman of the
Remuneration Committee

Governance

Corporate Governance and Nomination Committee Report

The Committee is responsible for developing corporate governance principles and guidelines applicable to TBC Bank, assessing the alignment of the Bank's governance practice with international standards of best practice, selecting and screening individuals qualified to become candidates for Supervisory Board and Management Board membership, considering and making recommendations to the Supervisory Board on the composition of the Supervisory Board and the Management Board, as well as on the composition and structure of the Supervisory Board Committees.

The Corporate Governance and Nomination Committee consists of four members of the Supervisory Board. Members meet on a quarterly basis and schedule additional meetings when appropriate. The committee is chaired by Eric J. Rajendra.

The Nomination and Corporate Governance Committee Policy of the Bank is set out on TBC's Investor Relations website.

The following describes the committee composition and meeting attendance in 2014:

Corporate Governance and Nomination Committee Composition

Name	Position	Year of Appointment	Scheduled Meetings Eligible to Attend	Scheduled Meetings Attended	Additional Meetings Eligible to Attend	Additional Meetings Attended
Eric J. Rajendra	Chairman	2012	4	4	2	2
Badri Japaridze	Member	2012	4	4	2	2
Irina Schmidt	Member	2012	4	3	2	2
Nikoloz Enukidze	Independent Member	2013	4	4	2	2

Assessment of the Work Completed

In 2014 the Corporate Governance and Nomination Committee worked on the following items in line with its responsibilities and obligations:

New Members of the Supervisory Board and Management Board

The Committee was involved in finding new candidates for Supervisory and Management Board membership. It discussed proposed candidates and reviewed and interviewed shortlisted individuals for the position of the second Non-executive Independent Director on the Board. The Committee then presented their recommendation to the Supervisory Board for approval. As a result, the Board was strengthened with a new INED member in March 2014. The Committee was also involved in finding candidates for three new Management Board positions. It considered and interviewed candidates for three new Deputy CEOs: the Chief Risk Officer, George Tkhelidze, the Head of Corporate Banking, David Tsiklauri, and the Head of Microfinance Banking, Nikoloz Kurdiani. The Committee incorporated the views of the CEO in this process and presented the optimal finalist candidate for the full Supervisory Board's approval.

Succession Planning Policy

The Committee worked on the Succession Planning Framework and heard and noted the positions of the Management Board members throughout the year. On 9 December 2014, the Committee presented and recommended appropriate Succession Planning frameworks for each of the Deputy CEOs.

Key members of the Management Board and middle management have been identified for succession planning at the CEO and Deputy CEO level. The committee has identified strong and weak areas for each candidate and developed a plan for further professional development. The recommended succession planning framework ensures that the company builds an appropriate internal leadership pipeline and includes initiatives that cover additional qualification courses, training opportunities and recommendations on developing generalist and specialist skills as needed.

Induction and Training

New Directors of the Supervisory Board receive induction training shortly after appointment. Further professional development opportunities are provided based on the work Directors carry out on different Supervisory Board committees. During the self-assessment process at the end of the year, the Directors identify a relevant development programme for each member of the Board.

Assessment of Effectiveness

The Corporate Governance and Nomination Committee effectiveness review is conducted every year in order to assess the Committee's performance. This assessment is carried out by Committee members themselves and by the Supervisory Board as a whole, in line with international standards of best practice in corporate governance. The 2014 Corporate Governance and Nomination Committee review has found that the Committee effectively fulfilled all of its responsibilities and obligations.

Eric J. Rajendra
Chairman of the Corporate Governance and Nomination Committee

Risks, Ethics and Compliance Committee Report

The Risk, Ethics and Compliance Committee (RECC) is responsible for reviewing, assessing and recommending any actions to be taken by the Supervisory Board regarding TBC Bank's risk management strategy, risk appetite and tolerance, risk management system and risk policies. In addition, the RECC reviews and approves large exposures to customers in circumstances when the borrower's aggregate liability to TBC Bank exceeds 5% of TBC Bank's Basel capital. Other main responsibilities of the committee are to supervise TBC Bank's commitment to the highest standards of ethical behaviour and to oversee TBC Bank's compliance function.

RECC consists of four members of the Supervisory Board and members meet in person on a quarterly basis. If required, the Committee holds additional meetings via electronic communications, including meetings held in accordance with RECC's loan approval responsibility. The Committee is chaired by Nikoloz Enukidze, independent member of the Board.

The Risks, Ethics and Compliance Committee Policy of the Bank is set out on TBC's Investor Relations website.

The following describes the committee composition and meeting attendance in 2014:

Risk, Ethics and Compliance Committee Composition

Name	Position	Year of Appointment	Scheduled Meetings Eligible to Attend	Scheduled Meetings Attended	Additional Meetings Eligible to Attend	Additional Meetings Attended
Nikoloz Enukidze	Chairman	2014	4	4	12	12
Nicholas Dominic Haag	Member	2013	4	4	12	12
Badri Japaridze	Member	2012	4	3	12	12
Irina Schmidt	Member	2012	4	3	12	12

Assessment of the Work Completed

In 2014 the RECC worked on the following items in line with its responsibilities and obligations:

Supervision of Risk Management

On a quarterly basis, the Committee reviewed the Bank's credit, operating and financial risk management results, the status of its largest corporate problem loans and the Bank's capital position.

In September 2014, TBC issued its second ICAAP document, which was actively debated by the Committee and subsequently approved by the Supervisory Board. The document was submitted to NBG for further discussions.

The Committee examined the Bank's new Risk Appetite Framework and approved the revised Risk Appetite Document, which was submitted to NBG in September 2014. The Committee also reviewed and approved updated IRR limits. The Committee maintained regular dialogue with the Bank's management and, in particular, the CRO. The Committee closely monitored and supported strategic initiatives in the risk management area. The full Directors' Statement on Risk Management and Internal Control is provided on page 78.

Supervising the Compliance Function

The Committee heard quarterly updates by the Chief Compliance Officer on the implementation of the compliance program, which was approved by the Committee in December 2013 in accordance with the Compliance Policy of the Bank adopted by the Supervisory Board on 22 May 2013.

Supervising the Right Culture within the Bank

The Committee reviewed TBC Bank's Code of Conduct and Code of Ethics approved in 2013 in order to ensure that the documents reflected current developments in the Bank and to recommend further amendments as necessary. No amendments to the Code of Conduct and Code of Ethics were considered necessary in 2014.

Assessment of Effectiveness

The Risks, Ethics and Compliance Committee Effectiveness Review is conducted every year by the Board and the individual Committee members in order to assess the RECC performance, as per international standards of best practice in corporate governance. During the year 2014, which was the second full year of its operation, the Committee was effective in overseeing the Bank's risk management, compliance activities and ethical standards. In 2015 the Committee plans to pay particular attention to Strategic Risk Management initiatives introduced by the Bank's new CRO, who was appointed in December 2014.

Nikoloz Enukidze
Chairman of the Risk, Ethics and Compliance Committee

Governance

Management Board

The Management Board is responsible for TBC's day-to-day management, with the exception of functions reserved to the General Meeting of Shareholders and the Supervisory Board. The Supervisory Board appoints the members of the Management Board for renewable terms of four years and is also in charge of their dismissal. Banking regulations contain certain limitations as to who may become a member of the Management Board and criteria that each director must fulfil. The scope of authority of each member of the Management Board is defined by a contract entered into with the director upon appointment.

From left to right: Giorgi Shagidze, David Tsiklauri, George Tkhelidze, Vakhtang Butskhrikidze, Paata Gadzadze, Vano Baliashvili, Nikoloz Kurdiani. In the bottom row, from left to right: Nino Masurashvili, Mariam Megvinetukhutsesi[a].

(a) Mariam Megvinetukhutsesi resigned from her position as Deputy CEO and Co-Head of Corporate Banking in December 2014.

Members of the Management Board

Vakhtang Butskhrikidze
CEO
Mr Butskhrikidze graduated from Tbilisi State University in 1992 with a degree in Economics and holds post graduate qualifications from the Institute of Economics, Academy of Sciences of Georgia and the European School of Management in Tbilisi. He obtained an MBA from the European School of Management in Tbilisi in 2001. Between 1993 and 1994, he acted as Junior Specialist at the Institute of Economics, Academy of Sciences of Georgia, as well as Assistant to the Minister of Finance of Georgia. Mr Butskhrikidze joined TBC as a Senior Manager of the Credit Department in 1993 and was elected as Deputy Chairman of the Management Board in 1994. He became Chairman of the Management Board in 1996. Since 1998, he has held the position of CEO of TBC Bank and has headed a number of TBC's committees. Mr Butskhrikidze is also a member of the Supervisory Boards of the Association of Banks of Georgia and the Georgian Stock Exchange and is Chairman of the Financial Committee of the Business Association of Georgia. Since 2011 he has also held the position of member of the Supervisory Board of the Partnership Fund, Georgia. In 2001, Mr Butskhrikidze was honoured with the "Best Businessman of the Year" award by Georgian Times Magazine and in 2011 he was recognised as the "Best Banker 2011" by GUAM – Organization for Democracy and Economic Development award. Mr Butskhrikidze was also named as the CEO of the Year 2014 in Central and Eastern Europe and the CIS by EMEA Finance magazine.

Paata Gadzadze
First Deputy CEO
Mr Gadzadze graduated from Tbilisi State University in 1992 with a degree in Economics and holds a postgraduate qualification from the Institute of Economics, Academy of Sciences of Georgia. Between 1992 and 1994, he was Assistant to the Minister of State Property Management. Mr Gadzadze held the position of lecturer at the European School of Management in Tbilisi between 1994 and 2004. He joined TBC in 1994 as Deputy General Director of TBC Bank and was appointed to the Management Board in 1996. In 2005 he was also Head of the Credit Department. Mr Gadzadze has held the position of First Deputy CEO since 1998. Between 2000 and 2004, he also served as CEO of Georgian Pension and Insurance Holding. Since 2007 he has held the position of Chairman of the Supervisory Board of UFC.

Governance

Management Board

Continued

Giorgi Shagidze

Deputy CEO, CFO

Mr Shagidze graduated from Tbilisi State University in 1997 with a degree in Economics. He obtained an MBA degree from the University of Cambridge Judge Business School in 2008. Between 1996 and 2001, Mr Shagidze worked at Agro Industrial Bank of Georgia as Head of Credit Investment Department, Head of International Payments, Customer Relationship Manager, Dealer and Applications Developer. Between 2001 and 2005, he worked at Tbiluniversalbank, where he held the positions of CEO, Deputy CEO, Head of IT and Branch Manager. In 2005, he became Director of Distribution Channels Division at Bank of Georgia before becoming Deputy CEO of the Peoples Bank of Georgia in 2005. Between 2008 and 2010, Mr Shagidze acted as a Global Operations Executive for Barclays Bank Plc. He became Deputy CEO and Chief Financial Officer of TBC Bank and was appointed to the Management Board in 2010. Since 2011 he has been a member of the Supervisory Board of Bank Constanta.

Vano Baliashvili

Deputy CEO, COO

Mr Baliashvili graduated from Tbilisi State University in 1992 with a degree in Economics and obtained an MBA from the European School of Management in Tbilisi. In 2011 he obtained a Master's Certificate in Project Management from George Washington University, school of business. Between 1993 and 1995, he held the positions of Intern Accountant and Accountant at Commercial Bank Sandro and Chief Accountant at Commercial Bank Shalen. Between 1995 and 1999, he held the positions of Economist, Foreign Exchange Division, Head of the Foreign Exchange Department, and Head of the Internal Audit Department at JSC TbilCredit Bank. Mr Baliashvili joined TBC in 1999 as Head of Service, Internal Audit and Control. He became Finance Division Chief in 2000 and has held the position of Deputy CEO, Chief Operating Officer since 2002. Since 2008, Mr Baliashvili has also held the position of Chairman of the Supervisory Board of UFC. He was appointed to the Management Board in 2002.

George Tkhelidze

Deputy CEO, Chief Risk Officer

Mr Tkhelidze graduated from the London Business School with an MBA degree. Prior to this, he obtained a Diploma in Law from Tbilisi State University in 2000 and a Master of Laws degree in International Commercial Law at the University of Nottingham in 2002. Mr Tkhelidze joined TBC Bank from Barclays Investment Bank, where he held the position of Vice President in the Financial Institutions Group (FIG), EMEA since June 2011. For the two years prior to this he was an Associate Director in Barclays Debt Finance and Restructuring Teams. In his earlier career in Georgia, Mr Tkhelidze held various managerial positions in ALDAGI insurance company, where he also served as Chief Executive Officer until he left the position in 2007 to obtain his MBA degree. During his career in London, Mr Tkhelidze executed multiple M&A, debt and capital markets transactions with European financial institutions.

David Tsiklauri

Deputy CEO, Corporate Banking

Mr Tsiklauri obtained his MBA degree from London Business School in 2008. He also holds MSE and BSE degrees from the Georgian Technical University. He joined TBC Bank from Deutsche Bank, where he served as the Vice President of the Capital Markets and Treasury Solutions team since 2011. He has specific expertise in the origination, structuring and execution of public and private transactions and principal investment trades in several countries, including the Emerging Markets. Prior to this, Mr Tsiklauri worked as an Associate in the Debt Capital Markets Department at Deutsche Bank. From 2005-2006 he served as the Head of Investor Relations at TBC Bank until he left the position to earn his MBA degree.

Governance

Management Board

Continued

Nino Masurashvili

Deputy CEO, Retail and SME Banking

Ms Masurashvili graduated from Tbilisi State University in 1996 with a degree in Economics and obtained an MBA from the European School of Management in Tbilisi. Between 1995 and 2000, she held the positions of Credit Account Manager, Credit Officer, Financial Analyst (Financial Department) and Head of Financial Analysis and Forecasting Department at JSC TbilCom Bank. Between 1998 and 2000, she also held the position of Accountant at the Barents Group. Ms Masurashvili joined TBC in 2000 as Manager in the Planning and Control Department and became head of that department in 2002. Between 2004 and 2005, she acted as Head of the Sales Department and Retail Bank Coordinator. Ms Masurashvili was appointed as Deputy CEO, Retail and SME Banking and to the Management Board in 2006. Between 2006 and 2008 Ms Masurashvili was the Chairman of the Supervisory Board of UFC. Since 2011 she has also held a position as a member of the Supervisory Board of TBC Kredit and Bank Constanta.

Nikoloz Kurdiani

Deputy CEO, Micro Banking

Mr Kurdiani obtained his MBA degree from IE Business School in 2007. He also holds an MSc degree in International Economics from the Georgian Technical University and completed BBA studies at Ruhr-University Bochum in Germany and the Caucasus School of Business. Mr Kurdiani has ten years of experience in the banking industry which includes five years at UniCredit Group in Austria and Kazakhstan. He has expertise in post-acquisition integration and restructuring, as well as improving retail sales. Between 2008 and 2010 Mr Kurdiani held the position of Senior Sales Support Expert at the CEE Retail Division of Bank Austria, UniCredit Group, responsible for Turkey, Kazakhstan, Ukraine and Serbia. Between 2010 and 2013, he was Head of the Retail Division of ATF Bank, UniCredit Group in Kazakhstan. Immediately before joining TBC Bank, Mr Kurdiani was Managing Director of Kaspi Bank, a leading retail bank in Kazakhstan. Prior to obtaining his MBA degree in 2007, he served as Head of the Retail Banking Division of Bank Republic Georgia, Société Générale Group, and also held several positions at Bank of Georgia between 2003 and 2006.

Management Board Committees

In order to effectively carry out its daily responsibilities, the Management Board has established the following committees: Credit Committee, Assets and Liabilities Management Committee (ALCO), Operational Risk Management Committee, Customer Satisfaction Committee, IT Steering Committee, Change Advisory Board Committee and Operations Management Committee.

Credit Committee

The Credit Committee is composed of top and middle managers of TBC Bank, and is chaired by the CEO.

The Committee meets once a month or more frequently, as required. The exact composition of the Credit Committee varies among the Retail, Corporate, SME and Micro-finance segments. The Credit Committee reports to the Management Board.

The Credit Committee is responsible for maintaining loan portfolio quality within acceptable risk levels and ensuring that TBC's lending guidelines are consistent with relevant legislation and regulatory policies. The Credit Committee reviews the quality of TBC's loan portfolio on a regular basis and monitors and controls the recovery and collection process in respect of TBC's loans. It informs the Management Board about notable developing trends and recommends necessary actions in order to take advantage of new opportunities and maintain proper portfolio diversification.

The Credit Committee delegates its loan approval authority to the Loan Approval Committees.

Loan Approval Committee

Loan Approval Committees are responsible for reviewing credit applications and approving credit products. Different Loan Approval Committees are in place for the approval of credit exposures to Retail, Corporate, SME and Micro customers.

The composition of a Loan Approval Committee depends on the type of the exposure, aggregated liabilities of the borrower and the borrower's risk profile. The Loan Approval Committee consists of at least two persons with sufficient credit experience. Credit risk managers (as members of corresponding Loan Approval Committees) ensure that borrower and proposed credit exposure risks are thoroughly analysed.

A corporate loan to a "large borrower" (a borrower with exposure to more than 5% of TBC Bank's Basel capital) would require the review and approval of the Risk, Ethics and Compliance Committee. Loans to TBC's related and connected parties are approved by the Supervisory Board (although the Supervisory Board delegates approval authority to the Management Board for loans up to USD 100,000).

Assets and Liabilities Management Committee (ALCO)

The ALCO has ten members, is chaired by the CEO and meets once a month or more frequently, as required. It is supported by middle management from TBC Bank's finance operations. The ALCO reports to the Management Board.

The ALCO is responsible for overseeing the effective implementation of TBC Bank's asset and liability management policies in order to (I) maximise shareholder value and enhance profitability, (II) ensure that liquidity, interest rate, foreign exchange, capital adequacy and interbank counterparty risks are managed efficiently within the Risk Appetite Statement, and (III) ensure compliance with existing covenants and limits from the NBG, IFIs and other third parties. The functions of the ALCO include setting and monitoring risk exposure limits based on reports, analysis, forecasts, stress tests and hypothetical scenarios prepared by TBC's financial risk management and other functions, approving risk management methodologies, making decisions and amendments to TBC's asset liability structure, approving risk hedging instruments, and deciding on corrective actions in case specified limits are breached. The ALCO is given authority to make a number of decisions regarding TBC's assets and liabilities under its governing documents, although authorisation for certain decisions is reserved to the Management Board.

Operational Risks Committee

The Operational Risks Committee has six members comprising top and middle managers of TBC Bank and is chaired by the CEO. The Operational Risks Committee reports to the Management Board. The Operational Risks Committee is responsible for reviewing operational risks faced by TBC, overseeing these risks and making decisions in order to minimise them. Meetings of the Operational Risks Committee are held on a quarterly basis or more frequently, as required. The Operational Risks Committee functions are to review and approve operational risk management policy; review and approve recommendations related to the development of the risk management framework; review and approve the limits of risk insurance; discuss reports on operational risks; monitor critical risks; and prepare recommendations for the Management Board on these issues.

Governance

Management Board Committees

Continued

Other Committees

The Customer Experience Management Committee is responsible for overseeing and ensuring customer satisfaction. The Committee is chaired by the CEO with membership comprised of top and middle managers.

The IT Steering Committee is responsible for prioritisation and approval of IT projects and the IT project portfolio performance oversight. The Committee is chaired by the Deputy Chief Information Officer with membership comprised of top and middle managers.

The Change Advisory Board Committee is responsible for the review and approval of all IT related change requests initiated by different business units. The Committee is chaired by the Deputy Chief Information Officer with membership comprised of top and middle managers.

The Operations Management Committee is responsible for developing and improving the service processes in the Bank. The Committee is chaired by the CEO with membership comprised of top and middle managers.

The Problem Loans Committee is responsible for the management and monitoring of TBC's portfolio of problem assets through all phases of collection. The Committee is chaired by the CRO with membership comprised of top and middle managers.

This openwork bronze buckle was also preserved at the school museum in Western Georgia until 2001. This artistically sophisticated artefact features a beautifully designed composition. The buckle once again reinforces experts' conviction that even in the Late Antique period, local metal workers were extremely skilled and advanced in their profession.

Risk Management

TBC considers its risk management function to be fundamental to its business. The main objectives of risk management are to contribute to the development of TBC's business strategy by ensuring risk-adjusted profitability and guarantee TBC's sustainable development through the implementation of an efficient risk management system. The major inherent risks of TBC's business are credit risk, liquidity risk, market risk (including interest rate and foreign currency risk), operational risk, strategic risk and reputational risk. TBC's risk management process encompasses all the activities that affect its risk profile and consists of the following core elements: (i) active board and senior management oversight; (ii) adequate policies and procedures aimed at effectively controlling risk exposures; (iii) adequate risk identification, measurement and management systems; and (iv) comprehensive internal controls. TBC systematically reviews and continuously seeks to improve its risk management policies and systems to ensure that they are in line with any new challenges it faces.

TBC's risk management strategy identifies significant risks it faces, formulates risk appetite limits and communicates the risk management framework. The risk management process consists of the following stages:

Risk identification	Identification of the full range of business level risks TBC faces.
Risk assessment	Assessment of all identified risks based on the likelihood of occurrence and significance of their impact and creation of risk maps.
Control	Establishment of key control processes and practices, including limit structures and reporting requirements, and a formalised risk monitoring process to control adherence to predefined targets and risk limits.
Reporting	Establishment of an effective management information system in order to ensure a timely flow of information to the corresponding risk units.

The following principles are fundamental to TBC's risk management:

- **Sustainability.** TBC conducts its business with a view towards long-term sustainability. Therefore potential impacts on sustainability of TBC are assessed when making business decisions and when managing resources and infrastructure. TBC pursues a strategy that excludes any involvement in transactions that could pose an unacceptable risk for TBC's activities, development and reputation.
- **Materiality.** The materiality of each risk to which TBC is exposed across the corresponding asset classes is mainly determined based on size of exposure, the current nature of processes and related controls. All material risks are identified based on the risk identification and assessment processes that are undertaken regularly within TBC.
- **Proportionality.** The more material a risk exposure is, the more efforts and resources are devoted to its analysis and more sophisticated approaches and complex methods are applied to its measurement.
- **Risk acceptance/risk hedging.** The risk management framework within TBC encompasses all types of risks to which TBC is exposed and that should be managed. TBC either accepts exposure to a risk or hedges against it, depending on the type of risk. TBC accepts risk exposure according to the predefined risk appetite limits set by the Supervisory Board and Management Board. Certain types of risks, such as operational risks, interest rate risk and market risks, are hedged by means of insurance and/or derivative transactions.

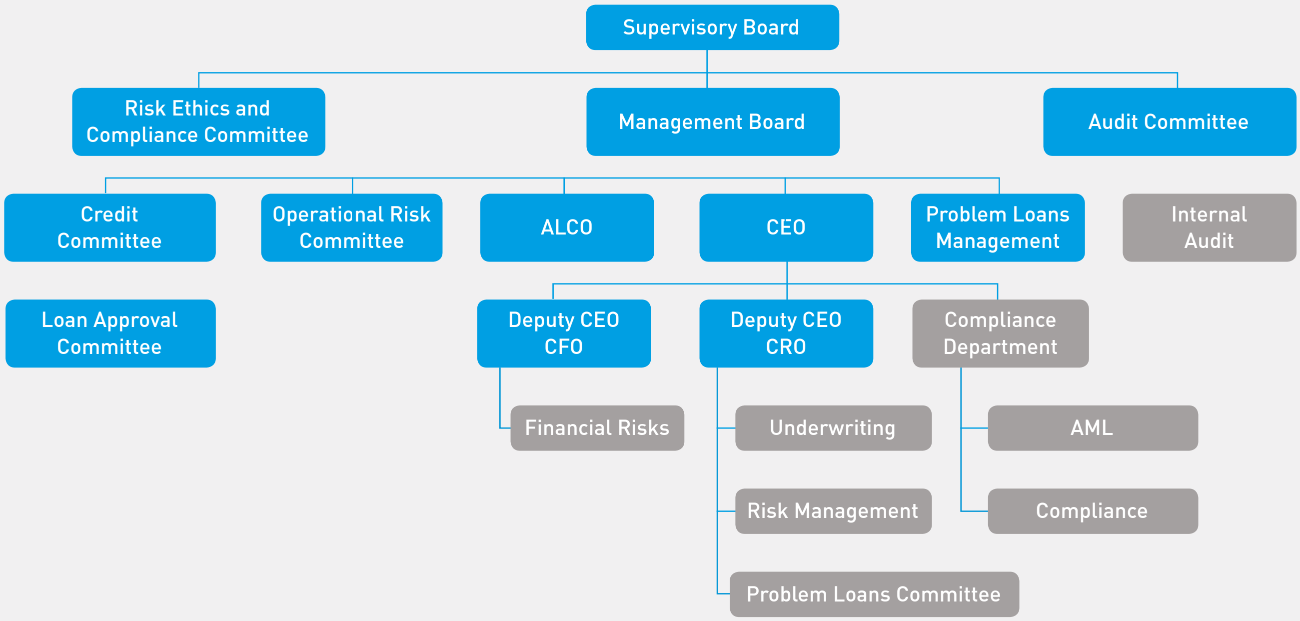
Governance

Risk Management

Continued

Risk Management Structure

TBC conducts its risk management activities within the framework of its unified risk management system. The following chart sets forth TBC's risk management structure:



In addition to this general risk management structure, which governs the entire TBC group, several of TBC Bank's subsidiaries (Bank Constanta[a], TBC Kredit and TBC Leasing) also have their own internal risk management structures.

Principal Risk Management Bodies

The monitoring and implementation of TBC's risk management function is split among eight principal risk management bodies: the Supervisory Board, the Risk, Ethics and Compliance Committee, the Audit Committee, the Management Board, the Credit Committee, the Operational Risks Committee, the Assets and Liabilities Management Committee (ALCO) and the Problem Loans Committee.

TBC employs a Chief Risk Officer (CRO), who reports to the CEO and is responsible for supervising all risk management activities across TBC's business except for financial risk management, which is supervised by the Chief Financial Officer. The Chief Risk Officer is also required to ensure that TBC's risk exposure level is in accordance with the defined limits set forth in TBC's Risk Appetite Statement (as defined below) and that its operations are adequate in light of TBC's risk profile.

The Chief Risk Officer and Chief Financial Officer have independent access to the Chairman of the Risk, Ethics, and Compliance Committee.

Supervisory Board

The Supervisory Board is responsible for the oversight of TBC's risk management. It approves TBC's risk management strategy, risk appetite and policies that are recommended by the Management Board. The Supervisory Board approves credit portfolio forecasts and budgets and monitors TBC's performance. The Supervisory Board also approves decisions that fall outside of the scope of Loan Approval Committee's authority, such as extending loans to TBC Bank's related and connected parties. The CRO presents a comprehensive report regarding compliance with risk appetite limits, credit portfolio, and results of the enterprise wide stress test to the Supervisory Board on a quarterly basis.

For more detailed information on the Supervisory Board, the Management Board, and relevant Committees, please refer to the Corporate Governance chapter of this Report.

(a) Bank Constanta was legally merged with TBC Bank in January 2015.

Risk Management Implementation

TBC's risk management policies are implemented through a number of committees and departments, including the Internal Audit, Financial Risk Management, Treasury, Credit Portfolio Risk Management, Corporate, SME and Retail Underwriting, Operational Risk Management, Legal and Compliance Departments, each of which reports to one of the principal risk management bodies referred to above.

Internal Audit Department

The establishment and maintenance of appropriate systems of risk management and internal control is primarily the responsibility of business management. The Internal Audit function provides independent and objective assurance in respect of the adequacy of the design and operating effectiveness of the framework of risk management, control and governance process across the group, focusing on the areas of greatest risk to TBC Bank using a risk-based approach. The Internal Audit Department monitors compliance with local legislation and regulation, including compliance with NBG requirements and regulation, regularly reviews the reliability of the Bank's information technology systems, assesses reliability and integrity of financial information and reporting procedures in accordance with a predetermined schedule. The Bank Internal Audit Department discusses the results of all assessments with management, and reports its findings and recommendations to the Bank Audit Committee and the Supervisory Board. The Internal Audit Department is independent of the Management Board.

Financial Risk Management Department

The Financial Risk Management Department is involved in the management of financial risks arising from TBC's day-to-day banking activities, including liquidity risk, interest rate risk, foreign currency exchange risk and capital adequacy risk. It prepares various reports and analyses in order to assist ALCO in performing its main functions. The Financial Risk Management Department reports to the Chief Financial Officer and monitors compliance with the limits set by the ALCO, regulators and international financial institutions, forecasts liquidity and other ratios and covenants, provides stress testing and analyses hypothetical scenarios.

Treasury Department

The Treasury Department is involved in short-term liquidity management, money-market and fixed income dealing, foreign exchange dealing and TBC Bank's overall open currency position management. The ALCO provides guides for the Treasury Department's operations on an ongoing basis and sets limits for bank counterparties. The Treasury Department is authorised to conclude foreign exchange, money market and fixed income deals within the limits approved by ALCO, The Treasury Department, along with the Financial Risk Management Department, prepares regular reports, which are presented to the ALCO and which are the primary means by which the ALCO supervises the Treasury Department's asset and liability management functions.

The Treasury Department undertakes a number of activities in relation to liquidity, money-market and fixed income dealing, including managing the distribution of cash and non-cash liquidity among TBC Bank's branches and nostros accounts, placing free liquidity (within approved limits by ALCO) with local and foreign counterpart banks, as well as investing in local sovereign debt securities. The Treasury Department also attracts short-term funding from local and foreign counterpart banks (when necessary) and conducts ongoing analyses of risks and opportunities aimed at ensuring that TBC Bank remains in compliance with limits set by the Financial Risk Management Department. The Treasury Department then prepares recommendations in respect of revised risk exposure limits for the ALCO. The Treasury Department also undertakes a number of functions to manage and constantly monitor TBC Bank's overall open currency position and to ensure compliance with the prudential ratios set by the NBG, as well as TBC Bank's internal policies. In addition, the Treasury Department is responsible for setting foreign exchange bid and ask rates, as well as monitoring and authorising certain transactions on non-standard rates, conducting foreign exchange and derivative transactions with large clients in accordance with TBC Bank's foreign exchange pricing policy and advising clients on foreign exchange issues.

Credit Portfolio Risk Management Department

The Credit Portfolio Risk Management Department reports to the Chief Risk Officer and is responsible for the management of credit portfolio risk. The Credit Portfolio Risk Management Department ensures the maintenance of a balanced loan portfolio and the correspondence of actual risks to the predefined limits.

The Department prepares policies and procedures for efficient credit risk management, which are approved by the Supervisory Board or Management Board. The Credit Portfolio Risk Management Department is responsible for the timely identification and assessment of credit risks and outlining mitigation actions regarding those risks that should be reduced. This department develops adequate tools and models for effective credit risk management, such as application and behavioural scorecards and rating models. The department develops models for stress testing in order to assess credit exposures under various scenarios and make corresponding conclusions for capital adequacy purposes.

The Credit Portfolio Risk Management Department reviews and analyses portfolio dynamics on a regular basis, analyses underwriting standards and outlines recommendations for managing portfolio risks more efficiently. The Credit Portfolio Risk Management Department prepares regular reports to the Management Board, Supervisory Board, Credit Committee and Risk, Ethics and Compliance Committee in order to timely communicate information about portfolio quality trends and structure, compliance with risk appetite limits, TBC's related and connected party exposures, results of stress tests and outputs of the risk assessment process.

Risk Management

Corporate, SME, and Retail Credit Underwriting Departments
The Corporate, SME and Retail Credit Underwriting departments are involved in the applications approval process as members of the corresponding loan approval committees. Corporate, SME and retail credit risk managers review loan presentations on credit exposures prepared by the loan officers and credit analysts to ensure that the analysis is complete, that comprehensive information is gathered to assess the borrower's risk profile, that all relevant risks are identified and adequately addressed and that the loan is properly structured.

Corporate and SME credit risk managers also oversee the monitoring process of individual transactions in order to timely discover any signs of deterioration in a borrower's repayment capability and undertake corresponding measures. The Corporate, SME and Retail Credit Underwriting Departments report to the Chief Risk Officer.

Applications for any micro loans not approved at the branch level are reviewed by Bank Constanta's Credit Risk Management Department. In addition to application reviews, this department is responsible for micro loans portfolio quality monitoring and for the development of models for credit portfolio management.

Operational Risk Management Department
The Operational Risk Management Department implements a framework for identifying, assessing, measuring and reporting principles of operational risks. This operational risk management framework enables TBC's identification and assessment of operational risk categories within TBC's processes and operations; the detection of critical risk areas or groups of operations with an increased risk level; the development of response actions and the imposition of restrictions in critical risk zones to neutralise identified risk; and the development of business-process optimisation schemes, including document circulation, information streams, distribution of functions, permissions and responsibilities. It ensures that operational risk is within TBC's risk appetite. The Operational Risk Management Department reports to the Chief Risk Officer.

Legal Department
The Legal Department ensures that TBC's activities conform to applicable legislation and works to minimise losses from the materialisation of legal risks. The Legal Department is responsible for the application and development of mechanisms for identifying legal risks in TBC's activities in a timely manner, the investigation of TBC's activities in order to identify any legal risks, the planning and implementation of all necessary actions to eliminate identified legal risks and participation in legal proceedings on behalf of TBC where necessary. The Legal Department monitors all changes in relevant laws and regulations, and ensures that those changes are properly reflected in TBC's procedures, instructions, manuals, templates and other relevant documentation.

Compliance Department
The Compliance Department is focused on improving the entire compliance system. It is responsible for coordinating the identification, assessment and documentation of compliance risks associated with TBC's activities, including the development of new products and business practices, the proposed establishment of new types of business or customer relationships or material changes in the nature of such relationships and other related measures. The Compliance Department is authorised to plan and administer TBC's overall compliance systems, perform compliance-related direction and supervision, and instruct on corrective action and other measures to branches, offices, divisions, headquarters, subsidiaries, and affiliates, both in and out of Georgia, upon the occurrence of violations of compliance, all in an integrated fashion.

Anti-money laundering is one of the Compliance Department's main functions, established according to the compliance legislation and recommendations of competent international organisations. TBC is committed to high standards of anti-money laundering and requires Management and employees to adhere to these standards in order to prevent the use of TBC's products and services for money laundering purposes. Adherence to this policy is mandatory for all TBC group companies and for all employees.

Risk Appetite
Management considers the risk appetite to be fundamental in the Bank's risk management. Risk appetite is defined as the level of risk the Bank is willing to take in the pursuit of its business strategy.

Management believes that a well-defined risk appetite statement leads to more efficient risk management across the Group with:

- greater transparency of key risk objectives,
- consistency between strategic objectives and the risk management framework, and
- greater awareness of risk objectives and more effective communication with internal decision-makers and external stakeholders.

The TBC Bank Group defines acceptable levels of risk in order to meet the following aims and goals:

- Maintain the capital adequacy ratio and proper allocation of capital
- Manage liquidity
- Manage earnings volatility
- Maintain the desired level of credit rating of the Bank
- Comply with the requirements of the regulators, creditors and shareholders

The Bank regularly assesses whether it, considering its business strategy, operates within the bounds of the stated risk appetite statement under business as usual, mild stress and severe stress scenarios. If analysis reveals that the Bank operates outside of its risk appetite, changes are recommended where appropriate to the Bank's business plan.

The risk appetite statement is cascaded down to the operational limits for all types of risks and business segments and approved by the Risk, Ethics and Compliance Committee. Quantitative limits are set where possible for those risk drivers which affect the Bank's risk profile and thus is important for maintaining risks within the Bank's risk appetite. Qualitative limits are set for limits which are not easily quantifiable. Limits are updated on a yearly basis in line with the Bank's business strategy.

Internal Capital Adequacy Assessment Process (ICAAP)

Following the adoption of Basel II/III requirements by the NBG, TBC calculates its capital requirements and risk-weighted assets separately under both Pillar 1 and Pillar 2 starting from 31 December 2012. The NBG sets forth detailed instructions of Pillar 1 calculations. For Pillar 2 purposes, TBC has adopted an Internal Capital Adequacy Assessment Process (ICAAP), whereby TBC Bank assesses all material risks that it faces and reserves capital for each.

In September 2014, TBC has issued its second ICAAP document that was actively debated by Risk, Ethics and Compliance committee and was approved by the Supervisory Board. The document was submitted to the NBG for further discussions.

The key components of TBC's ICAAP process include the risk identification, comprehensive assessment of risks and sound capital cover assessments, including risk appetite establishment and limiting system construction; aggregation; stress testing; validation; risk monitoring; reporting and ex post control; quality assurance and internal control review process; and capital planning.

The table below summarises the material risks TBC Bank faces and the approaches used to calculate capital charges for each identified risk.

Summary of Risks Considered per Basel pillar I and II

Key areas	Pillar I	Pillar II
Credit Risk	Standardised approach	Standardised approach
Currency Induced Credit Risk (CICR)	NBG assessment	Bank assessment
Market Risk	Standardised approach	Standardised approach
Operational Risk	Basic Indicator Approach	Advanced Measurement Approach
Liquidity Risk	Not required	Not required
Interest Rate Risk in the banking book	—	Advanced Approach
Reputation Risk	—	Benchmarking
Strategic Risk	—	Benchmarking
Concentration Risk	—	Bank assessment

Under ICAAP, TBC Bank's economic capital is calculated in order to cover all material risks other than liquidity risk (for which a liquidity contingency plan, rather than capital, is required).

Stress Testing

TBC Bank performs stress testing which is used to provide valuable information for the management decision making within economic capital management. The Bank has developed a comprehensive, Enterprise-Wide Stress Testing (EWST) framework that is actively used for capital management and risk assessment purposes.

TBC Bank considers two main scenarios in its stress testing:

Mild stress – a stress that might occur during the normal business cycle (once in seven years). According to the risk appetite of the bank, the bank should have enough buffer on top of minimum capital requirements to ensure that the bank can withstand the mild stress scenario without breaching the minimum capital adequacy requirement.

Severe stress – a stress that could occur once in 100 years. The Risk appetite requires the bank to maintain positive equity in case of the severe stress test scenario. If capital is not enough to maintain positive equity after the severe stress test, the stress results will be applied as severe stress buffer on top of minimum capital requirements and mild stress or NBG buffers.

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Risk Management

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Methodology used for both stress tests is the same, however the scenarios and risks considered are different.

Stress tests scenarios are designed to be consistent with TBC Bank's risk appetite statement.

Credit Risk Management

Overview

TBC Bank is exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. TBC Bank's exposure to credit risk arises as a result of its lending operations and other transactions with counterparties giving rise to financial assets. Adverse changes in the credit quality of the borrower or a general deterioration in economic conditions could affect the recoverability and the value of TBC Bank's credit portfolio and therefore its financial performance.

The credit risk that the Bank faces includes: (i) counterparty credit risk (the risk default or non-fulfilment of contracts due to a deterioration in the counterparty's credit quality); (ii) concentration risk (the risk of portfolio quality deterioration due to large exposures to small numbers of borrowers or individual industries); (iii) currency-induced credit risks (risks arising from foreign currency-denominated loans in the portfolio); and (iv) residual risks (resulting from the use of credit risk-mitigation techniques).

The objective of TBC Bank's credit risk management is to maximise risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters as defined by TBC Bank's risk appetite.

Comprehensive risk management methods and processes are established as part of TBC Bank's risk management framework to manage credit risk effectively. The main principles for TBC Bank's credit risk management are: establishing an appropriate credit risk environment; operating under a sound credit-granting process; and maintaining efficient processes for credit risk measurement, control and monitoring.

The Bank systematically reviews and continuously seeks to improve its credit risk management policies and systems in an effort to ensure that high quality and strong credit risk management systems are in place, and they are in line with any new challenges the Bank faces from the changing market environment, as well as the development and growth of the Bank's business. As part of this process, the following initiatives were carried out in 2014:

- The Bank's risk appetite statement was updated and approved by the Supervisory Board and Risk, Ethics and Compliance Committee. The management believes that clearly articulated risk appetite provides clear direction for the Bank's risk taking activities, thereby enabling the critical link between the Bank's strategy and day-to-day risk management. The Bank moved to the in-house scorecard development and updated scorecards for the number of retail products. The Bank used to develop various types of scorecards with support of external consultants. Moving to in-house development enables the Bank to apply specific knowledge of the local market, thus leading to more robust scorecards development.
- Retail loans' early collection system was reviewed and improved together with external consultant. Updated processes for early phase collection enables the Bank to more efficiently manage delinquencies in the retail loan book, and thus minimise level of overdue loans.
- The methodology was developed for management and measurement of concentration risks in the loan book. The methodology enables the Bank to keep concentration level at the acceptable limit, as defined by the risk appetite and to assess the required capital under Pillar II for the given concentration level

Credit Analysis Process

TBC Bank strives to ensure a sound credit-granting process by establishing well-defined credit granting criteria and building up an efficient process for the comprehensive assessment of a borrower's risk profile. The credit analysis process is comprised of a number of aspects. Principal amongst these is a risk assessment of the counterparty according to predefined credit granting principles. Various assessment processes are in place based on the type of credit exposure and borrower profile. When analysing corporate, SME, micro and large retail loans it is ensured that sufficient information is received about the borrower, its credit history, purpose of the credit and, where applicable, collateral in order to make an adequate credit decision. For smaller retail loans, such as POS loans and credit cards, decisions are mainly based on the borrower's application score and credit bureau rating.

Different Loan Approval Committees are in place for the approval of credit exposures to retail, corporate, SME and micro customers. The composition of a Loan Approval Committee depends on aggregated liabilities of the borrower and the borrower's risk profile. Credit risk managers (as members of corresponding Loan Approval Committees) ensure that the borrower and proposed credit exposure risks are thoroughly analysed. POS and credit card loans are reviewed by the Centralised Operations Processing Department. Loans to TBC Bank's related and connected parties are approved by the Supervisory Board (although the Supervisory Board delegates approval authority to the Management Board for loans up to USD 100,000). A loan to a "large borrower" (a borrower with exposure to more than 5% of TBC Bank's Basel capital) requires the review and approval of the Risk, Ethics and Compliance Committee.

Credit Risk Mitigation

Credit decisions are based primarily on the borrower's repayment capacity and creditworthiness; in addition, TBC Bank uses credit risk mitigation tools given by collateral and guarantees to reduce credit risk. The reliance that can be placed on these mitigants is carefully assessed for legal certainty and enforceability, market valuation of collateral and counterparty risk of the guarantor. Corresponding policies determine eligibility of collateral types and outline procedures to ensure that the value of collateral is appropriately appraised and monitored regularly. It is ensured that the agreements regarding the provision of the collateral can be enforced legally.

The majority types of collateral used for credit risk mitigation purposes are: real estate; equipment, machinery, inventory and other movable assets; cash and gold. In order to be recognised as security and for the loan to be classified as secured, all items pledged must be valued in accordance with TBC Bank's internal policies, by TBC Bank's Internal Appraisal Group (other than loans to related parties, for which external appraisers are used). The policy prescribes both the process of valuation and the frequency of valuation for different collateral types. The Internal Appraisal Group is independent from the loan granting process in order to ensure that adequate appraisals are obtained and proper appraisal procedures are followed.

Collateral of significant value (defined as cases where the value of each of the loan and the collateral exceeds GEL 500,000) is re-evaluated annually by internal appraisers during on-site visits. Statistical methods are used to monitor the value of equipment and real-estate collateral that are of non-significant value. Inventory collateral is re-evaluated semi-annually. Collateral may require more frequent re-evaluation as a result of changes to the borrower's standing or market fluctuations. In case of repossession, any collateral is also re-evaluated within three months prior to any repossession.

Credit Risk Measurement and Monitoring

TBC Bank dedicates considerable resources to gain a clear and accurate understanding of the credit risk the Bank faces across various business segments. In order to efficiently manage the portfolio, loans are classified according to risk criteria in accordance with an internal classification system corresponding to NBG policy and IFRS requirements. The risk management function has also established an internal industry and single facility grading system in order to effectively evaluate and rate the overall strength of TBC's credit portfolio.

Grading

The Bank has established a facility grading system with respect to retail, corporate, SME and micro loans.

For retail loans, TBC Bank together with the help of external consultants developed a statistical behavioural rating model. The model contains three separate grading systems for (a) loans secured by real estate, (b) credit limits, and (c) consumer and other retail loans. Each type is further differentiated depending on the amount of time the loan has been outstanding (with separate analyses for loans outstanding more than or less than six months). A grade is allocated to the facility based on variables relating to the borrower's demographic (including gender, work experience), credit history and payment behaviour, utilisation of facilities (frequency of credit usage and balances of loan amounts) and macroeconomic factors (such as GDP and refinance rates).

The expert grading system for corporate and SME loans was updated together with external consultants. The grade is allocated to corporate and SME borrowers above a certain threshold and consists of a combination of (i) the industry grade score, (ii) a general borrower score reflecting the borrower's position in the industry and its corporate governance, and (iii) a borrower financial score reflecting financial conditions of the borrower and its potential ability to meet financial liabilities.

Portfolio Supervision

In order to minimise credit risk, TBC Bank continuously monitors its credit portfolio, both at the level of individual transaction and at overall credit portfolio level. TBC Bank's risk management policies and processes are designed to identify and analyse risk in a timely manner, to set appropriate risk limits, and to monitor the risks and adherence to limits by means of reliable and timely data.

TBC Bank has processes in place to monitor credit portfolio quality on a daily basis, analyse trends and take remedial measures as and when any deterioration occurs. The system enables the Bank to ascertain whether loans are being properly serviced, the adequacy of provisions, whether the overall risk profile is within limits established according to risk appetite and general compliance with all credit regulatory limits.

At the individual borrower level, TBC Bank regularly monitors the borrower's timely debt repayments, as well as, for corporate and SME loans, the borrower's financial condition, use of funds and fulfilment of covenants. The corresponding policy provides procedural guidelines relating to credit risk monitoring, monitoring frequency and roles and responsibilities of corresponding individuals.

Provisioning guidelines

The allowance for loss is established for financial assets when there is objective evidence that a financial asset is impaired. According to TBC Bank's policy, the Bank's loan loss reserve must be maintained at a level that is adequate to absorb all estimated inherent losses in TBC Bank's credit portfolio at any given point in time. TBC Bank makes every effort to maintain an adequate allowance for loss in order to properly reflect the risk affecting TBC's earnings and capital. The Bank estimates loan provisions and allowance for losses according to rules set both by the NBG and IFRS.

Provisioning levels by NBG standards are defined according to the borrower's financial condition, number of days overdue and collateral coverage of the loan. Under NBG rules, retail and micro-finance loan provisioning is done collectively, whereas corporate and SME loan provisioning levels are assessed individually.

According to IFRS, the credit portfolio is assessed for provision impairment on an individual and collective basis. For provisioning purposes, borrowers or group of borrowers are classified as "significant" or "non-significant". Borrowers with total liabilities of GEL two million or more are regarded as significant. Significant loans with

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Risk Management
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an impairment trigger event (such as a deterioration of the borrower's financial standing or delinquencies in loan repayment) are assessed for impairment on an individual basis. The remaining portfolio (non-significant loans and significant loans with no impairment) is assessed together on a collective basis.

Individual assessment is conducted based on the borrower's financial standing and discounted collateral values (with discount ratios differing by collateral type). The borrower's financial standing is assessed based on historical and projected financials, including historical financial results, business specifications, national economic and relevant industry trends.

Collective assessment is conducted by reference to compiled statistical data of five years' historical losses. The collectively-assessed portfolio is segmented according to individual industries (in the case of business loans) and product types (in the case of retail loans).

Concentration
Concentration management is a significant function of credit risk management. A concentration of credit risk exists when a number of counterparties are engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic and other conditions. As a result, TBC Bank constantly reviews its concentration in a number of areas.

TBC Bank limits the level of credit risk it undertakes by placing limits on concentrations of: (i) single borrowers and groups of related borrowers; (ii) large borrowers (classified as those with exposure to more than 5% of TBC Bank's regulatory capital); (iii) related and affiliated parties of TBC Bank (iv) single borrowers with unsecured liability and total unsecured loans; (v) single industry and groups of "higher-risk" industries (such as development, construction and real estate) and (vi) top 20 group of borrowers. The limits are updated annually or more frequently as necessary.

Comprehensive monitoring system is in place to ensure that concentration levels are within the predefined limits.

Stress Testing
TBC Bank uses stress tests to estimate potential credit losses in case of deteriorating economic conditions and their effect on available capital. Two types of stress tests are undertaken for credit risk management purposes: (i) enterprise wide stress test and (ii) currency induced credit risk stress test.

Under the enterprise wide stress testing framework potential credit losses are estimated for mild and severe stress scenarios. The framework contrasts key economic criteria with historical observed default data. This data is used to predict an effect of different stress scenarios on TBC Bank's current credit portfolio considering default rates and collateral prices. The stressed available capital under different scenarios is compared with required capital according to both internal and regulatory capital rules, to assess the Bank's financial strength under the different economic conditions.

According to the currency induced credit risk stress testing framework TBC Bank's foreign currency-denominated credit portfolio is stress tested for currency devaluations, estimating potential losses suffered by a foreign currency-denominated credit portfolio. The results of stress testing are applied for capital requirements assessment purposes under ICAAP.

Funding and Liquidity Risk Management
Liquidity risk is the risk that TBC either does not have sufficient financial resources available to meet all of its obligations and commitments as they fall due, or can access those resources only at a high cost. Liquidity risk is managed by the Financial Risk Management and Treasury Departments and is monitored by the ALCO.

The principal objectives of TBC's liquidity risk management policy are to:
(i) ensure the availability of funds in order to meet claims arising from total liabilities and off-balance sheet commitments, both actual and contingent, at an economic price;
(ii) recognise any structural mismatch existing within TBC's statement of financial position and set monitoring ratios to manage funding in line with the Bank's well-balanced growth; and
(iii) monitor liquidity and funding on an ongoing basis to ensure that approved business targets are met without compromising TBC's risk profile.

The Liquidity risk management Policy is reviewed by Management Board prior to approval by the Supervisory Board.

Liquidity risk is categorised into two risk types: funding liquidity risk and market liquidity risk.

Funding liquidity risk is the risk that TBC will not be able to efficiently meet both expected and unexpected current and future cash flow without affecting either its daily operations or its financial condition under both normal conditions and during a crisis situation. To manage funding liquidity risk TBC internally developed Liquidity Coverage Ratio (LCR) and a Net Stable Funding Ratio (NSFR) models both under Basel III liquidity guidelines. In addition, TBC applies as well stress tests and "what-if" scenario analyses and monitors NBG minimum liquidity ratio.

LCR (calculated by reference to the sum of qualified liquid assets and 30-day cash inflows divided by 30-day cash outflows) is used to help manage short-term liquidity risks. TBC's liquidity risk management framework is designed to comprehensively project cash flows arising from assets, liabilities and off-balance sheet items over certain time bands and ensure that liquidity coverage ratio limits are put in place. TBC also stress tests the results of liquidity through large shock scenarios set by the NBG. TBC calculates its internal liquidity coverage ratio and conducts stress tests on a weekly basis. TBC Bank's liquidity coverage ratios were 402%, 344% and 305% for the years ended 31 December 2014, 2013 and 2012, respectively.

NSFR is used for long-term liquidity risk management to promote resilience over a longer time horizon by creating additional incentives for TBC to rely on more stable sources of funding on a continuing basis.

Market liquidity risk is the risk that TBC cannot easily offset or eliminate a position at the then-current market price because of inadequate market depth or market disruption. To manage market liquidity risk, TBC follows Basel III guidelines on high-quality liquidity asset eligibility to ensure that TBC's high-quality liquid assets can be sold without causing a significant movement in the price and with minimum loss of value.

In addition, TBC has a liquidity contingency plan, updated annually, which forms part of TBC's overall prudential liquidity policy and is designed to ensure that TBC is able to meet its funding and liquidity requirements and maintain its core business operations in deteriorating liquidity conditions that could arise outside the ordinary course of its business.

Funding
TBC's principal sources of liquidity include customer deposits and customer accounts, borrowings from local and international banks and financial institutions, subordinated loans from the IFI Investors, local inter-bank short-term term deposits and loans, proceeds from sales of investment securities, principal repayments on loans, interest income, and fee and commission income.

We believe that strong and diversified funding structure is one of TBC's differentiators. TBC relies on relatively stable deposits from Georgia as the main source of funding. In order to maintain and further enhance liability structure TBC sets the targets for retail deposits in the strategy and sets the gross loan to deposit ratio limits. TBC's gross loan to deposit ratio (defined as total value of gross loans divided by total value of deposits) was 112%, 103% and 102% as at 31 December 2014, 2013 and 2012, respectively.

TBC also sets deposit concentration limits for large deposits and deposits of non-Georgian residents in its deposit portfolio.

We believe that TBC has sufficient liquidity to meet its current on- and off-balance sheet obligations.

For further information on management of liquidity risk, please refer to Note 35 to the Audited Consolidated Financial Statements.

Maturity Analysis
TBC's principal sources of liquidity include deposits and customer accounts; borrowings from local and international banks and financial institutions; subordinated loans from the IFI Investors; inter-bank term deposits and short-term loans; proceeds from sales of investment securities; principal repayments on loans; interest income; and fee and commission income.

We believe that TBC has sufficient liquidity to meet its current on- and off-balance sheet obligations.

For further information on management of liquidity risk, please refer to Note 35 to the Audited Consolidated Financial Statements.

TBC follows the Basel Committee's definition of market risk as the risk of losses in on- and off-balance-sheet positions arising from movements in market prices. These risks are principally (a) risks pertaining to interest rate related instruments and equities in the "trading book" (financial instruments or commodities held for trading purposes); and (b) foreign exchange risk and commodities risk throughout TBC. TBC's strategy is not to be involved in trading financial instruments or investments in commodities. Accordingly, TBC's only exposure to market risk is foreign exchange risk in its "structural book," comprising its regular commercial banking activities having no trading, arbitrage or speculative intent.

Foreign Exchange Risk
TBC is exposed to currency risk that arises from the potential change in foreign currency exchange rates, which can affect the value of a financial instrument. This risk stems from the open currency positions created due to mismatches in foreign currency assets and liabilities. The NBG requires TBC Bank to monitor both balance-sheet and total aggregate balance (including off-balance sheet) open currency positions and to maintain the later one within 20% of TBC Bank's regulatory capital. For the year ended 31 December 2014, TBC Bank maintained an aggregate balance open currency position of 3.1%.

In addition, the Supervisory Board sets further limits on open currency positions. The ALCO has set limits on the level of exposure by currency and for total aggregate position which are more conservative than those set by the NBG and the Supervisory Board. TBC Bank's compliance with these limits is monitored daily by the heads of the Treasury and Financial Risk Management Departments and is reported periodically to the Management Board, the Supervisory Board and the Risk, Ethics and Compliance Committee.

Open currency positions are used to assess TBC Bank's minimum capital requirements under the ICAAP framework on a monthly basis. In addition, the Financial Risk Management Department performs stress testing on a monthly basis.

Governance

Risk Management

Continued

Interest Rate Risk Management

Interest rate risk arises from potential changes in market interest rates that can adversely affect the value of TBC's financial assets and liabilities. This risk can arise from maturity mismatches of assets and liabilities, as well as from the repricing characteristics of such assets and liabilities. Most of the loans and deposits offered by TBC are at fixed interest rates, while a portion of TBC's borrowings is based on a floating rate of interest. TBC's floating rate borrowings are, to a certain extent, hedged as a result of the NBG paying a floating rate of interest on the minimum reserves that TBC holds with the NBG. TBC Bank has also entered into interest rate swap agreements in order to mitigate interest rate risk. Furthermore, many of TBC's loans to and deposits from customers contain a clause allowing TBC to adjust the interest rate on the loan/deposit in case of adverse interest rate movements, thereby limiting TBC's exposure to interest rate risk. Management also believes that TBC's interest rate margins provide a reasonable buffer in order to mitigate the effect of possible adverse interest rate movement.

TBC Bank employs an advanced framework for the management of interest rate risk. In order to manage interest rate risk TBC Bank establishes appropriate limits, monitors compliance with the limits and prepares forecasts. Interest rate risk is managed by the Financial Risk Management Department and is monitored by the ALCO. The ALCO decides on actions that are necessary for effective interest rate risk management and follows up on their implementation. The ALCO reports periodically to the Management Board, the Supervisory Board and the Risk, Ethics and Compliance Committee.

TBC Bank measures four types of interest rate risk based on the source of the risk: (i) repricing risk, (ii) yield curve risk, (iii) basis risk and (iv) optionality (embedded option risk).

TBC Bank considers a number of stress scenarios, including different yield curve shift scenarios and behavioural adjustments to cash flows (such as deposit withdrawals or loan prepayments), to calculate the impact on one-year profitability and enterprise value. Appropriate limits are set by the Supervisory Board and by the ALCO.

Under the ICAAP framework, TBC Bank reserves capital in the amount of the adverse effect of possible parallel yield curve shift scenarios on net interest income over a one-year period for Basel II Pillar 2 capital calculation purposes. As at 31 December 2014 the impact of the downward parallel shift of a yield curve of 3.3% in GEL and an upward parallel shift of 2.5% in USD on net interest income over a one-year period was equivalent to GEL 29 million.

Operational Risk Management

TBC Bank is exposed to operational risk, which is the risk of loss resulting from inadequate or failed processes, people and systems or from external events. It includes legal risk, but excludes strategic and reputational risk.

In order to oversee and mitigate operational risk, TBC Bank has established an operational risk management framework. The main components of this framework are the identification, assessment, measurement and reporting of operational risk, including information technology risk. TBC Bank uses various tools and techniques to mitigate operational risk, including internal loss data, structured self-assessment systems, scenario and root cause analyses, risk mapping and risk indicators. The Supervisory Board and Management Board ensures a strong internal control culture within the bank where control activities are an integral part of TBC Banks operations.

In connection with the Basel II/III Implementation Project, TBC Bank reviewed and enhanced its operational risk management system according to Basel II requirements. This included the development of an Internal Advance Measurement (AMA) model to calculate economic capital for operational risk.

TBC Bank has implemented various policies, processes and procedures (including as part of the Basel II/III Implementation Project) to control and mitigate material operational risks.
These include:

- Implementation of new technologies, increased levels of automation and the use of insurance policies to minimise and externalise risks relating to "low frequency, high severity" events;
- Outsourcing risk management policy which enables TBC Bank to control outsourcing (Vendor) Risk arising from adverse events and risk concentrations due to failures in vendor selection, insufficient controls and oversight over a vendor and/or services provided by a vendor and other impacts to the vendor which could not happen to us by nature, severity or frequency;
- Establishment of business continuity plans to ensure TBC Bank's ability to operate on an ongoing basis and limit losses in the event of a severe business disruption;
- Implementation of procedures to analyse system flaws and take corrective measures to prevent the re-occurrence of significant losses;
- Involvement of the Operational Risk Department in the approval process of new products and services to minimise risks relating thereto; and
- Development of a special Operational Risk Awareness programme for TBC Bank employees and provision of regular training to further strengthen TBC's internal risk culture.

The Management Board and the Supervisory Board together set TBC Banks operational risk appetite policy and the Operational Risks Committee oversees compliance with the limits set therein. The Operational Risks Committee discusses TBC Banks operational risk profile and risk minimisation recommendations on a regular basis.

The Operational Risk Department is responsible for the implementation of the operational risk management framework and reports to the Chief Risk Officer. The Operational Risk Department is also responsible for receiving IT incident reports, monitoring IT incident occurrences and overseeing activities targeted at solving identified problems. External consultants perform regular assessments of information security risks, which are managed according to international standards.

To minimise information security risk TBC has invested in Data Loss Prevention and Information Security and Event Management (SIEM) systems. The data loss prevention system is designed to detect potential data breaches and prevent sensitive data from loss and misuse. SIEM system provides real-time analysis of security alerts generated by network hardware and applications.

The internal control function of the Operational Risk Management Department is intended to detect systematic errors in banking operations, ensure far-reaching improvement and development through proposals and added value in process advancements. The main functions of this process include: development of internal control system to address risks that could prevent achieving established goals; use of qualitative and quantitative methods to identify risk and determine relative risk rankings; coordination of establishment and maintenance control activities such as reconciliations, approvals, and review of operating activities; and monitoring and reporting results to the Management and Supervisory Board to enable it to understand the internal control system and focus on the material and strategic implications for TBC Banks business.

In addition, TBC Bank manages Compliance and AML Risk, Reputational Risk, Strategic Risk and other relevant risks. For more information regarding these risks, please refer to TBC Bank IR website at www.ir.tbcbank.ge and relevant documents within.

Financial Statements

Financial Statements

Independent Auditor's Report

To the Shareholders and Management of JSC TBC Bank:

We have audited the accompanying consolidated financial statements of JSC TBC Bank and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of JSC TBC Bank and its subsidiaries as at 31 December 2014, and their financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers Central Asia & Caucasus B.V. Georgia Branch

18 February 2015
Tbilisi, Georgia

Consolidated Statement of Financial Position

In thousands of GEL	Notes	31 December 2014	31 December 2013	31 December 2012
ASSETS				
Cash and cash equivalents	6	532,118	390,465	398,587
Due from other banks	7	33,704	1,708	29,542
Mandatory cash balances with the National Bank of Georgia	8	336,075	295,332	316,061
Loans and advances to customers	9	3,556,496	2,801,712	2,370,200
Investment securities available for sale	10	466,510	500,651	407,733
Investments in finance leases	12	50,907	35,613	26,377
Investment properties	15	76,216	83,383	34,305
Current income tax prepayment		251	6,202	10,135
Deferred income tax asset	33	383	–	–
Other financial assets	11	43,857	45,049	25,301
Other assets	13	77,775	65,075	67,354
Goodwill	16	2,726	2,726	2,726
Intangible assets	14	37,756	23,491	18,817
Premises and equipment	14	208,692	199,668	192,556
TOTAL ASSETS		**5,423,466**	**4,451,075**	**3,899,694**
LIABILITIES				
Due to credit institutions	17	749,285	565,806	627,123
Customer accounts	18	3,322,428	2,886,883	2,486,944
Other financial liabilities	21	41,346	24,850	19,462
Current income tax liability		12,433	–	–
Debt securities in issue	19	20,423	4,474	–
Deferred income tax liability	33	23,187	27,814	20,143
Provisions for liabilities and charges	20	11,898	12,380	6,174
Other liabilities	22	34,975	31,305	20,744
Subordinated debt	23	188,015	168,274	115,080
TOTAL LIABILITIES		**4,403,990**	**3,721,786**	**3,295,670**
EQUITY				
Share capital	24	19,576	16,499	16,143
Share premium	24	405,658	242,624	231,501
Retained earnings		532,992	402,627	298,880
Share based payment reserve	25	4,624	2,032	4,142
Other reserves	28	49,255	50,840	41,939
Net assets attributable to owners		**1,012,105**	**714,622**	**592,605**
Non-controlling interest	37	**7,371**	**14,667**	**11,419**
TOTAL EQUITY		**1,019,476**	**729,289**	**604,024**
TOTAL LIABILITIES AND EQUITY		**5,423,466**	**4,451,075**	**3,899,694**

Approved for issue and signed on 18 February 2015

Vakhtang Butskhrikidze
Chief Executive Officer

Giorgi Shagidze
Chief Financial Officer

The notes set out on pages 117 to 195 form an integral part of these consolidated financial statements.

Financial Statements

Consolidated Statement of Profit or Loss and Other Comprehensive Income

In thousands of GEL	Notes	2014	2013	2012
Interest income	29	512,357	474,796	456,545
Interest expense	29	(173,709)	(192,146)	(217,895)
Net interest income		**338,648**	**282,650**	**238,650**
Fee and commission income	30	88,203	74,361	64,232
Fee and commission expense	30	(29,523)	(24,301)	(18,830)
Net fee and commission income		**58,680**	**50,060**	**45,402**
Gains less losses from trading in foreign currencies		39,730	37,894	25,240
Foreign exchange translation gains less losses /(losses less gains)		2,359	(5,901)	7,617
(Losses less gains)/gains less losses from derivative financial instruments		(683)	613	(3,804)
Other operating income	31	19,600	16,136	13,680
Other operating non-interest income		**61,006**	**48,742**	**42,733**
Provision for loan impairment	9	(48,672)	(32,971)	(23,154)
Provision for impairment of investments in finance lease	12	(77)	(98)	(42)
Recovery of/ (Provision for) performance guarantees and credit related commitments	20	902	(6,459)	(1,606)
Provision for impairment of other financial assets	11	(1,236)	(2,236)	(4,132)
Impairment of investment securities available for sale		(22)	(1,142)	(10)
Operating income after provisions for impairment		**409,229**	**338,546**	**297,841**
Staff costs		(122,835)	(108,613)	(92,289)
Depreciation and amortisation	14,15	(24,427)	(19,993)	(22,103)
Provision for liabilities and charges	20	(5,500)	(1,315)	(1,700)
Administrative and other operating expenses	32	(73,548)	(68,692)	(69,440)
Operating expenses		**(226,310)**	**(198,613)**	**(185,532)**
Profit before tax		**182,919**	**139,933**	**112,309**
Income tax expense	33	(24,468)	(15,663)	(14,498)
Profit for the year		**158,451**	**124,270**	**97,811**
Other comprehensive income:				
Items that may be reclassified subsequently to profit or loss				
Revaluation of available-for-sale investments	10	(1,849)	7,923	682
Exchange differences on translation to presentation currency	28	2,095	1,233	(217)
Income tax recorded directly in other comprehensive income	33	(192)	(255)	(154)
Items that will not be reclassified to profit or loss:				
Revaluation of premises and equipment	28	–	–	10,513
Income tax recorded directly in other comprehensive income	33	–	–	(1,520)
Other comprehensive income for the year		**54**	**8,901**	**9,304**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**158,505**	**133,171**	**107,115**
Profit is attributable to:				
- Owners of the Bank		157,451	121,616	96,519
- Non-controlling interest		1,000	2,654	1,292
Profit for the year		**158,451**	**124,270**	**97,811**
Total comprehensive income is attributable to:				
- Owners of the Bank		157,505	130,517	105,823
- Non-controlling interest		1,000	2,654	1,292
Total comprehensive income for the year		**158,505**	**133,171**	**107,115**
Earnings per share for profit attributable to the owners of the Bank:				
- Basic earnings per share	26	3.4	3.0	2.5
- Diluted earnings per share	26	3.4	3.0	2.5

The notes set out on pages 117 to 195 form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

In thousands of GEL	Note	Share capital	Share premium	Share based payments reserve	Other reserves (note 28)	Retained earnings	Total	Non-controlling interest	Total equity
		Net assets Attributable to owners							
Balance at 1 January 2012		**15,171**	**203,308**	**6,180**	**33,162**	**201,826**	**459,647**	**9,134**	**468,781**
Profit for the year		–	–	–	–	96,519	**96,519**	1,292	**97,811**
Other comprehensive income		–	–	–	9,304	–	**9,304**	–	**9,304**
Total comprehensive income for 2012		–	–	–	9,304	96,519	**105,823**	1,292	**107,115**
Share issue	24	815	23,612	–	–	–	**24,427**	–	**24,427**
Share based payment	25	–	–	2,700	–	–	**2,700**	–	**2,700**
Increase in share capital arising from share based payment		157	4,581	(4,738)	–	–	**–**	–	**–**
Equity contribution of owners of non-controlling shareholders			–	–				993	**993**
Transfer of revaluation surplus on premises to retained earnings		–	–	–	(527)	535	**8**	–	**8**
Balance at 31 December 2012		**16,143**	**231,501**	**4,142**	**41,939**	**298,880**	**592,605**	**11,419**	**604,024**
Profit for the year		–	–	–	–	121,616	**121,616**	2,654	**124,270**
Other comprehensive income		–	–	–	8,901	–	**8,901**	–	**8,901**
Total comprehensive income for 2013		–	–	–	8,901	121,616	**130,517**	2,654	**133,171**
Share issue	24	240	7,097		–	–	**7,337**	–	**7,337**
Share based payment	25	–	–	2,032	–	–	**2,032**	–	**2,032**
Increase in share capital arising from share based payment		116	4,026	(4,142)	–	–	**–**	–	**–**
Equity contribution of owners of non-controlling shareholders		–	–	–	–	–	**–**	594	**594**
Dividends paid		–	–	–	–	(17,869)	**(17,869)**	–	**(17,869)**
Balance at 31 December 2013		**16,499**	**242,624**	**2,032**	**50,840**	**402,627**	**714,622**	**14,667**	**729,289**
Profit for the year		–	–	–	–	157,451	**157,451**	1,000	**158,451**
Other comprehensive income		–	–	–	54	–	**54**	–	**54**
Total comprehensive income for 2014		–	–	–	54	157,451	**157,505**	1,000	**158,505**
Share issue	24	3,077	172,493	–	–	–	**175,570**	–	**175,570**
Share based payment	25	–	–	2,592	–	–	**2,592**	–	**2,592**
Transaction costs recognized directly in equity		–	(9,459)	–	–	–	**(9,459)**	–	**(9,459)**
Purchase of additional interest from minority shareholders		–	–	–	89	(2,627)	**(2,538)**	(8,296)	**(10,834)**
Dividends paid		–	–	–	–	(26,492)	**(26,492)**	–	**(26,492)**
Transfer of revaluation surplus to retained earnings		–	–	–	(1,728)	2,033	**305**	–	**305**
Balance at 31 December 2014		**19,576**	**405,658**	**4,624**	**49,255**	**532,992**	**1,012,105**	**7,371**	**1,019,476**

The notes set out on pages 117 to 195 form an integral part of these consolidated financial statements.

Financial Statements

Consolidated Statement of Cash Flows

In thousands of GEL	Note	2014	2013	2012
Cash flows from operating activities				
Interest received		499,052	462,448	430,700
Interest paid		(182,572)	(192,482)	(200,303)
Fees and commissions received		95,295	74,823	64,232
Fees and commissions paid		(29,478)	(24,097)	(18,830)
Income received from trading in foreign currencies		39,730	37,894	25,240
Other operating income received		13,804	10,300	9,993
Staff costs paid		(116,481)	(102,115)	(89,589)
Administrative and other operating expenses paid		(74,703)	(66,849)	(66,465)
Income tax paid		(11,555)	(2,008)	(26,701)
Cash flows from operating activities before changes in operating assets and liabilities		233,092	197,914	128,277
Changes in operating assets and liabilities				
Net (increase) / decrease in due from other banks		(61,192)	61,275	(54,599)
Net increase in loans and advances to customers		(686,746)	(453,686)	(404,568)
Net increase in investment in finance lease		(11,889)	(9,334)	(4,398)
Net decrease / (increase) in other financial assets		593	(23,048)	(25,276)
Net decrease in other assets		11,056	22,471	26,402
Net increase / (decrease) in due to other banks		39,539	(30,334)	(34,013)
Net increase in customer accounts		336,631	297,393	474,948
Net increase in other financial liabilities		10,919	7,808	6,383
Net (decrease) / increase in other liabilities and provision for liabilities and charges		(5,187)	5,231	1,339
Net cash (used in) / from operating activities		(133,184)	75,690	114,495
Cash flows from investing activities				
Acquisition of investment securities available for sale	10	(845,665)	(755,433)	(813,864)
Proceeds from disposal of investment securities available for sale	10	51,369	61,626	90,857
Proceeds from redemption at maturity of investment securities available for sale	10	843,695	619,902	599,913
Acquisition of investment securities held to maturity		–	–	(5,000)
Proceeds from redemption of investment securities held to maturity		–	–	33,000
Acquisition of premises, equipment and intangible assets		(47,506)	(31,052)	(52,820)
Proceeds from disposal of investment property		15,452	18,316	14,296
Purchase of additional shares in subsidiaries		(10,923)	–	–
Net cash from / (used in) investing activities		6,422	(86,641)	(133,618)
Cash flows from financing activities				
Proceeds from other borrowed funds		370,124	159,856	321,160
Redemption of other borrowed funds		(252,693)	(213,057)	(286,695)
Proceeds from subordinated debt		6,000	45,763	–
Redemption of subordinated debt		–	–	(24,738)
Proceeds from debt securities in issue		19,334	4,474	–
Redemption of debt securities in issue		(4,474)	–	–
Dividends paid		(26,492)	(17,869)	–
Equity contribution of owners of non-controlling shareholders		–	594	993
Issue of ordinary shares		175,570	7,199	24,426
Transaction costs recognized directly in equity		(9,458)	–	–
Net cash from /(used in) financing activities		277,911	(13,040)	35,146
Effect of exchange rate changes on cash and cash equivalents		(9,496)	15,869	8,411
Net increase / (decrease) in cash and cash equivalents		141,653	(8,122)	24,434
Cash and cash equivalents at the beginning of the year	6	390,465	398,587	374,153
Cash and cash equivalents at the end of the year	6	532,118	390,465	398,587

The notes set out on pages 117 to 195 form an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1 Introduction

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2014 for TBC Bank (the "Bank") and its subsidiaries (together referred to as the "Group" or "TBC Bank Group").

The Bank was incorporated on 17 December 1992 and is domiciled in Georgia. The Bank is a joint stock company limited by shares and was set up in accordance with Georgian regulations.

In 2009 the Group issued new shares and since then it does not have an ultimate controlling party. At 31 December 2014, 2013 and 2012 shareholders structure is as follows:

		% of ownership interest held as at 31 December		
Shareholders	Note	2014	2013	2012
Bank of New York (Nominees), Limited	24	71%	–	–
TBC Holdings LTD		16%	19%	20%
Individuals		8%	9%	7%
Liquid Crystal International N.V. LLC		5%	7%	7%
International Finance Corporation		–	20%	20%
European Bank for Reconstruction and Development		–	20%	20%
Deutsche Investitions und Entwicklungsgesellschaft MBH		–	11%	12%
JPMorgan Chase Bank		–	5%	5%
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.		–	5%	5%
Ashmore Cayman SPC		–	4%	4%
Total		**100%**	**100%**	**100%**

Bank of New York is the nominal holder of the shares that have been listed on the London Stock Exchange following the IPO in June 2014

Principal activity. The Bank's principal business activity is universal banking operations that include corporate, small and medium enterprises ("SME"), retail and micro operations within Georgia. The Bank has operated under a general banking license issued by the National Bank of the Georgia ("NBG") since 20 January 1993.

The Bank has 13 (2013: 13; 2012: 13) branches and 46 (2013: 47; 2012: 45) service centres within Georgia. As at 31 December 2014, the Bank had 3,427 employees (2013: 2,893 employees; 2012: 2,705 employees).

The Bank is a parent of a group of companies (the "Group") incorporated in Georgia and Azerbaijan, primary business activities include providing banking, leasing, brokerage card processing services to corporate and individual customers. The list of companies included in the Group is provided in Note 2. The Bank is the Group's main operating unit and accounts for most of the Group's activities.

Registered address and place of business. The Bank's registered address and place of business is: 7 Marjanishvili Street, 0102 Tbilisi, Georgia.

Presentation currency. These consolidated financial statements are presented in thousands of Georgian Lari ("GEL thousands"), unless otherwise indicated.

2 Summary of Significant Accounting Policies

Basis for preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the revaluation of premises, available-for-sale financial assets, the initial recognition of financial instruments based on fair value and identifiable assets acquired and liabilities assumed in a business combination measured at their fair values at the acquisition date and financial instruments categorised as at fair value through profit or loss. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 3).

Financial Statements

Notes to the Consolidated Financial Statements

Continued

2 Summary of Significant Accounting Policies Continued

Consolidated financial statements. Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group, and are deconsolidated from the date on which control ceases.

The consolidated financial statements include the following principal subsidiaries:

	Ownership / voting % as of 31 December				Year of	
Subsidiary	2014	2013	2012	Country	incorporation or acquisition	Industry
United Financial Corporation JSC	98.67%	93.32%	93.32%	Georgia	1997	Card processing
TBC Broker LLC	100%	100%	100%	Georgia	1999	Brokerage
TBC Leasing JSC	99.48%	89.53%	89.53%	Georgia	2003	Leasing
TBC Kredit LLC	75%	75%	75%	Azerbaijan	2008	Non-banking credit institution
Banking System Service Company LLC	100%	100%	100%	Georgia	2009	Information services
TBC Pay LLC	100%	100%	100%	Georgia	2009	Processing
Real Estate Management Fund JSC	100%	100%	100%	Georgia	2010	Real estate management
TBC Invest LLC	100%	100%	100%	Israel	2011	PR and marketing
Bank Constanta JSC	100%	84.69%	83.85%	Georgia	2011	Financial institution

The acquisition method of accounting is used to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree. Non-controlling interests that are not present ownership interests are measured at fair value.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed, and reviews appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements, but excludes acquisition related costs such as advisory, legal, valuation and similar professional services.

Transaction costs incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt are deducted from its carrying amount and all other transaction costs associated with the acquisition are expensed.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Bank and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Bank. Non-controlling interest forms a separate component of the Group's equity.

2 Summary of Significant Accounting Policies Continued

Disposals of subsidiaries, associates or joint ventures. When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are recycled to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

Financial instruments – key measurement terms. Depending on their classification financial instruments are carried at fair value, cost, or amortised cost as described below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

A portfolio of financial derivatives or other financial assets and liabilities that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (ie an asset) for a particular risk exposure or paid to transfer a net short position (ie a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date. This is applicable for assets carried at fair value on a recurring basis if the Group: (a) manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the entity's key management personnel; and (c) the market risks, including duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. Refer to Note 40.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes transaction costs. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments. Refer to Note 10.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the consolidated statement of financial position.

Financial Statements

Notes to the Consolidated Financial Statements

Continued

2 Summary of Significant Accounting Policies Continued

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate (refer to income and expense recognition policy).

Initial recognition of financial instruments. Trading securities, derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Derecognition of financial assets. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include cash on hand, amounts due from the NBG, excluding mandatory reserves, and all interbank placements and interbank receivables with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

The payments or receipts presented in the statement of cash flows represent transfers of cash and cash equivalents by the Group, including amounts charged or credited to current accounts of the Group's counterparties held with the Group, such as loan interest income or principal collected by charging the customer's current account or interest payments or disbursement of loans credited to the customer's current account, which represent cash or cash equivalent from the customer's perspective.

Mandatory cash balances with the National Bank of Georgia. Mandatory cash balances with the National Bank of Georgia are carried at amortised cost and represent mandatory reserve deposits which are not available to finance the Group's day to day operations and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated statement of cash flows.

Investment securities available for sale. This classification includes investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. The Group classifies investments as available for sale at the time of purchase.

Investment securities available for sale are carried at fair value. Interest income on available for sale debt securities is calculated using the effective interest method and recognised in profit or loss for the year. Dividends on available-for-sale equity instruments are recognised in profit or loss for the year when the Group's right to receive payment is established and it is probable that the dividends will be collected. All other elements of changes in the fair value are recognized in Other Comprehensive Income ("OCI") until the investment is derecognised or impaired, at which time the cumulative gain or loss is reclassified from OCI to profit or loss. Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investment securities available for sale.

2 Summary of Significant Accounting Policies Continued

A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is removed from equity and reclassified from OCI. Impairment losses on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through current period's profit or loss for the year.

Sale and repurchase agreements. Sale and repurchase agreements ("repo agreements"), which effectively provide a lender's return to the counterparty, are treated as secured financing transactions. Securities sold under such sale and repurchase agreements are not derecognised. The securities are not reclassified in the statement of financial position unless the transferee has the right by contract or custom to sell or repledge the securities, in which case they are reclassified as repurchase receivables. The corresponding liability is presented within amounts due to credit institutions. The repurchase agreements are short-term in nature. Available-for-sale securities reclassified to repurchase receivables continue to be carried at fair value in accordance with accounting policies for these categories of assets.

Investment securities held to maturity. This classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at each the end of each reporting period. Investment securities held to maturity are carried at amortised cost.

Due from other banks. Amounts due from other banks are recorded when the Group advances money to counterparty banks with original maturity of more than three months and with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost.

Loans and advances to customers. Loans and advances to customers are recorded when the Group advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost.

When impaired financial assets are renegotiated and the renegotiated terms and conditions differ substantially from the previous terms, the new asset is initially recognised at its fair value.

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Group considers whether a financial asset is impaired is its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine that there is objective evidence that an impairment loss has occurred:

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by borrower's financial information that the Group obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- there is adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower; or
- the value of collateral significantly decreases as a result of deteriorating market conditions.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups or such assets by being indicative of the debtor's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment, are estimated on the basis of historical loss experience and the success of recovery of overdue amounts. Historical experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods, and to remove the effects of past conditions that do not exist currently.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms.

Financial Statements

Notes to the Consolidated Financial Statements

Continued

2 Summary of Significant Accounting Policies Continued

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Loans to customers in retail, SME and micro segments (see Note 27 for segment definitions) are written off at the earliest of (a) after being past due for more than 180 days or (b) being fully provided for more than 90 days. Loans issued to customers in the corporate segment are written off after being past due for more than 270 days, unless the management expects to recover the loan within short period of time after 270 days threshold. Subsequent recoveries of amounts previously written off are credited to impairment loss account in profit or loss for the year.

Repossessed collateral. Repossessed collateral represents non-financial assets acquired by the Group in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in premises and equipment, investment property or inventories within other assets depending on their nature and the Group's intention in respect of recovery of these assets and are subsequently re-measured and accounted for in accordance with the accounting policies for these categories of assets. Inventories of repossessed assets are recorded at the lower of cost or net realisable value.

Credit related commitments. The Group enters into credit related commitments, including letters of credit and financial guarantees. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of each reporting period.

Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Such contracts do not transfer credit risk. Performance guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the contract. At the end of each reporting period, the performance guarantee contracts are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the contract at the end of each reporting period, discounted to present value if the discounting effect is material.

The Bank has the contractual right to revert to its customer for recovering amounts paid to settle the performance guarantee contracts. Such amounts are recognised as loans and receivables.

Goodwill. Goodwill is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill, and are not larger than an operating segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the disposed operation, generally measured on the basis of the relative values of the disposed operation and the portion of the cash-generating unit which is retained.

Premises and equipment. Premises and equipment, except for land, buildings and construction in progress, are stated at cost, less accumulated depreciation and provision for impairment, where required. Cost of premises and equipment of acquired subsidiaries is the estimated fair value at the date of acquisition.

Following initial recognition, land, buildings and construction in progress are carried at revalued amount, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed frequently enough to ensure that the carrying amount does not differ materially from that which would be determined using fair values at the end of reporting period.

2 Summary of Significant Accounting Policies Continued

Any revaluation surplus is credited to the revaluation reserve for premises and equipment included in equity, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is recognized in profit or loss to the extent of the decrease previously charged. A revaluation deficit is recognized in profit or loss, except that a deficit directly offsetting a previous surplus on the same asset is recognized in other comprehensive income and reduces revaluation reserve for premises and equipment cumulated in equity.

Depreciation on revalued buildings is charged to profit or loss. Upon disposal of revalued property, any revaluation reserve relating to the particular asset being sold or retired is transferred to retained earnings.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of premises and equipment items are capitalised and the replaced part is retired.

If impaired, premises and equipment are written down to the higher of their value in use and fair value less costs to sell. The decrease in carrying amount is charged to profit or loss to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

Depreciation. Land and construction in progress are not depreciated. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives as follows:

Premises	30 – 100 years;
Furniture and fixtures	5 – 8 years;
Computers and office equipment	3 – 8 years;
Motor vehicles	4 – 5 years;
Other equipment	2 – 10 years; and
Leasehold improvements	lesser of 7 years or the term of the underlying lease

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Investment property. Investment property is property held by the Group to earn rental income or for capital appreciation, or both and which is not occupied by the Group.

Investment property is stated at cost less accumulated depreciation and provision for impairment, where required. Investment property is amortised on a straight line basis over expected useful lives of thirty to fifty years. If any indication exists that investment properties may be impaired, the Group estimates the recoverable amount as the higher of value in use and fair value less costs to sell. The carrying amount of an investment property is written down to its recoverable amount through a charge to profit or loss for the year. An impairment loss recognised in prior years is reversed if there has been a subsequent change in the estimates used to determine the asset's recoverable amount.

Land included in investment property is not depreciated. Depreciation on other items of investment properties is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives of 30 to 50 years. Residual values of investment properties are estimated to be nil.

Earned rental income is recorded in profit or loss for the year within other operating income.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred.

Intangible assets. All of the Group's intangible assets have definite useful life and primarily include capitalised computer software and licenses.

2 Summary of Significant Accounting Policies Continued

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred. Intangible assets are amortised on a straight line basis over expected useful lives of two to fifteen years.

Finance lease receivables (Investment in finance lease). Where the Group is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as investments in finance leases and carried at the present value of the future lease payments. Investments in finance leases are initially recognised at commencement (when the lease term begins) using a discount rate determined at inception (the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).

The difference between the gross receivable and the present value represents unearned finance income. This income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term. Finance income from leases is recorded within interest income in the profit or loss.

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of investments in leases. The Group uses the same principal criteria to determine that there is objective evidence that an impairment loss has occurred as for loans carried at amortised costs disclosed earlier in this note. Impairment losses are recognised through an allowance account to write down the receivables' net carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the interest rates implicit in the finance leases. The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease.

Receivables from terminated leases. The Company recognizes receivables from terminated contracts at the moment of lease contract termination. These receivables are recognized at amount comprising difference between fair value of repossessed assets and outstanding balance of net investment in finance lease. Receivables are accounted for at amortised cost less impairment

Prepayment for purchase of leasing assets. Prepayment for purchase of leasing assets comprise interest bearing advance payments made to purchase assets for transfer into leases. Such advances are accounted for at amortised cost less impairment. On commencement of the leases, advances towards lease contracts are transferred into net investment in finance lease.

Due to credit institutions. Amounts due to credit institutions are recorded when money or other assets are advanced to the Group by counterparty banks. The non-derivative liability is carried at amortised cost. If the Group purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from retirement of debt.

Customer accounts. Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortised cost.

Subordinated debt. Subordinated debt includes long-term non-derivative liabilities to international financial institutions and is carried at amortised cost. The repayment of subordinated debt ranks after all other creditors in case of liquidation and is included in "tier 2 capital" of the Bank.

Debt securities in issue. Debt securities in issue include promissory notes, bonds, certificates of deposit and debentures issued by the Group. Debt securities are stated at amortised cost. If the Group purchases its own debt securities in issue, they are removed from the consolidated statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in gains arising from retirement of debt.

Derivative financial instruments. Derivative financial instruments, including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options are carried at their fair value. The Group also enters into offsetting deposits with its counterparty banks to exchange currencies. Such deposits, while legally separate, are aggregated and accounted for as a single derivative financial instrument (currency swap) on a net basis where (i) the deposits are entered into at the same time and in contemplation of one another, (ii) they have the same counterparty, (iii) they relate to the same risk and (iv) there is no apparent business purpose for structuring the transactions separately that could not also have been accomplished in a single transaction.

All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss. The Group does not apply hedge accounting.

Certain derivative instruments embedded in other financial instruments are treated as separate derivative instruments when their risks and characteristics are not closely related to those of the host contract.

2 Summary of Significant Accounting Policies Continued

Income taxes. Income taxes have been provided for in the consolidated financial statements in accordance with the legislation enacted or substantively enacted by the end of reporting period in the respective territories that the Bank and its subsidiaries operate. The income tax charge/credit comprises current tax and deferred tax and is recognised in profit or loss except if it is recognised directly in other comprehensive income because it relates to transactions that are also recognised, in the same or a different period, directly in other comprehensive income.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if consolidated financial statements are authorised prior to filing relevant tax returns. Taxes, other than on income, are recorded within administrative and other operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of reporting period which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is provided on post-acquisition retained earnings of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

Uncertain tax positions. The Group's uncertain tax positions are reassessed by Management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by Management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of reporting period and any known Court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on Management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Share capital. Ordinary shares with discretionary dividends are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

Dividends. Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the consolidated financial statements are authorised for issue, are disclosed in the subsequent events note.

Income and expense recognition. Interest income and expense are recorded for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Group does not designate loan commitments as financial liabilities at fair value through profit or loss.

When loans and other debt instruments become doubtful of collection, they are written down to present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset's effective interest rate which was used to measure the impairment loss.

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Notes to the Consolidated Financial Statements

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2 Summary of Significant Accounting Policies Continued

All other fees, commissions and other income and expense items are generally recorded on an accrual basis by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, which are earned on execution of the underlying transaction are recorded on its completion. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportion basis. Asset management fees related to investment funds are recorded rateably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

Foreign currency translation. The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The Bank's functional currency and the Group's presentation currency is the national currency of Georgia Lari.

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of respective territories that the Bank and its subsidiaries operate, at the respective reporting period. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

The results and financial position of each group entity (the functional currency of none of which is a currency of a hyperinflationary economy) are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the respective reporting period;
(ii) income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
(iii) components of equity are translated at the historic rate; and
(iv) all resulting exchange differences are recognised in other comprehensive income.

When control over a foreign operation is lost, the exchange differences previously recognised in other comprehensive income are reclassified to profit or loss for the year as part of the gain or loss on disposal. On partial disposal of a subsidiary without loss of control, the related portion of accumulated currency translation differences is reclassified to non-controlling interest within equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. At 31 December 2014 the closing rate of exchange used for translating foreign currency balances was USD 1 = 1.8636 (2013: USD 1 = GEL 1.7363; 2012: USD 1 = GEL 1.6567); EUR 1 = 2.2656 (2013: EUR 1 = GEL 2.3891; 2012: EUR 1 = GEL 2.1825).

Offsetting. Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Staff costs and related contributions. Wages, salaries, paid annual leave and sick leave, bonuses, and non-monetary benefits as well as the cash settled part of the share based payment schemes are accrued in the year in which the associated services are rendered by the employees of the Group.

Earnings per share. Earnings per share ("EPS") are determined by dividing the profit or loss attributable to owners of the Bank by the weighted average number of participating shares outstanding during the reporting year.

Diluted earnings per share. Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. In calculating diluted EPS, non-vested ordinary shares are treated as outstanding on the grant date.

Segment reporting. Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

2 Summary of Significant Accounting Policies Continued

Share based payments. Under share-based compensation plan the Group receives services from management as consideration for equity instruments of the Group. The fair value of the employee services received in exchange for the grant of the equity instruments is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the equity instruments granted, excluding the impact of any non-market service and performance vesting conditions. Non-market vesting conditions are included in assumptions about the number of equity instruments that are expected to vest. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the Group revises its estimates of the number of equity instruments that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision of original estimates, if any, in profit or loss, with a corresponding adjustment to equity. Increase in equity on accrued shares resulting from the equity settled parts of both schemes is accounted for under share based payment reserve. Upon meeting vesting conditions, share based payment reserve attributable to the vested shares is transferred to share capital and share premium.

Amendments of the consolidated financial statements after issue. The Bank's shareholders and management have the power to amend the consolidated financial statements after issue.

Reclassifications. In order to achieve better and more useful presentation, the management has changed the presentation of a number of financial statement line items in 2014. The following reclassifications were made to 31 December 2013 and 31 December 2012 balances to conform to the 31 December 2014 presentation:

Period end	Financial statement line item	As previously reported	As reclassified	Description
31 December 2013	Fee and commission income	66,497	74,361	Revenues from cash-in terminal services and card processing previously presented under other operating income are presented in fee and commission income on settlement transactions and on card operations.
	Other operating income	24,000	16,136	
31 December 2012	Fee and commission income	58,140	64,232	
	Other operating income	19,772	13,680	

3 Critical Accounting Estimates and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on Management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Initial recognition of related party transactions. In the normal course of business the Group enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. In management judgment, at 31 December 2014, 2013 and 2012, there were no loans and advances at other than market conditions. Terms and conditions of related party balances are disclosed in Note 42.

Impairment losses on loans and advances and finance lease receivables. The Group regularly reviews its loan portfolio and finance lease receivables to assess impairment. In determining whether an impairment loss should be recorded in the statement of profit or loss and other comprehensive income, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans or finance lease receivables before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. A 5% increase or decrease between actual loss experience and the loss estimates used will result in an additional or lower charge for loan loss impairment of GEL 7,488 thousand (2013: GEL 7,843 thousand; 2012: GEL 8,325 thousand) and additional charge for impairment of finance lease receivables of GEL 10 thousand (2013: GEL 9 thousand ; 2012: GEL 6 thousand), respectively.

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Notes to the Consolidated Financial Statements

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3 Critical Accounting Estimates and Judgements in Applying Accounting Policies Continued

Impairment provisions for individually significant loans and leases are based on the estimate of discounted future cash flows of the individual loans and leases taking into account repayments and realisation of any assets held as collateral against the loan or the lease. A 5% increase or decrease in the actual future discounted cash flows from individually significant loans which could arise from a mixture of differences in amounts and timing of the cash flows will result in an additional or lower charge for loan loss provision of GEL 2,081 thousand (2013: GEL 4,215 thousand; 2012: GEL 3,877 thousand), respectively. A 5% increase or decrease in the actual future discounted cash flows from individually significant leases which could arise from a mixture of differences in amounts and timing of the cash flows will result in an additional or lower charge for provision of GEL 2 thousand (2013:1 thousand ; 2012: 1 thousand), respectively.

Fair value disclosure of investment properties. Investment properties held by the Group are carried at cost. However, as per the requirements of IAS 40, the Group also discloses the fair value of investment properties as at the reporting dates. Fair value is determined by internal appraisers of the group, who hold a recognised and relevant professional qualification. In determining the fair values of investment properties, three market comparatives are identified. As comparatives are usually somewhat different from the appraised properties, the quoted prices of the comparatives were further adjusted based on the differences in their location, condition, size, accessibility, age and expected discounts to be achieved through negotiations with the vendors. Comparative prices per square meter so determined are then multiplied by the area of the valued property to arrive at the appraised value of the investment property. At 31 December 2014, investment properties comprised real estate assets located in Tbilisi and other regions of Georgia with the fair value amounting to GEL 79,056 thousand (2013: GEL 86,480 thousand; 2012: GEL 45,041 thousand).

Tax legislation. Georgian and Azerbaijani tax, currency and customs legislation is subject to varying interpretations. Refer to Note 36.

4 Adoption of New or Revised Standards and Interpretations

The following new standards and interpretations became effective for the Group from 1 January 2014:

"Offsetting Financial Assets and Financial Liabilities" – Amendments to IAS 32 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The standard clarified that a qualifying right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy. The amended standard did not have a material impact on the Group.

"Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment entities" (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014). The amendment introduced a definition of an investment entity as an entity that (i) obtains funds from investors for the purpose of providing them with investment management services, (ii) commits to its investors that its business purpose is to invest funds solely for capital appreciation or investment income and (iii) measures and evaluates its investments on a fair value basis. An investment entity is required to account for its subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity's investment activities. IFRS 12 was amended to introduce new disclosures, including any significant judgements made in determining whether an entity is an investment entity and information about financial or other support to an unconsolidated subsidiary, whether intended or already provided to the subsidiary. The amended standard did not have a material impact on the Group.

IFRIC 21 – "Levies" (issued on 20 May 2013 and effective for annual periods beginning 1 January 2014). The interpretation clarifies the accounting for an obligation to pay a levy that is not income tax. The obligating event that gives rise to a liability is the event identified by the legislation that triggers the obligation to pay the levy. The fact that an entity is economically compelled to continue operating in a future period, or prepares its financial statements under the going concern assumption, does not create an obligation. The same recognition principles apply in interim and annual financial statements. The application of the interpretation to liabilities arising from emissions trading schemes is optional. The interpretation did not have a material impact on the Group.

Amendments to IAS 36 – "Recoverable amount disclosures for non-financial assets" (issued in May 2013 and effective for annual periods beginning 1 January 2014; earlier application is permitted if IFRS 13 is applied for the same accounting and comparative period). The amendments remove the requirement to disclose the recoverable amount when a CGU contains goodwill or indefinite lived intangible assets but there has been no impairment. The amended standard did not have a material impact on the Group.

Amendments to IAS 39 – "Novation of Derivatives and Continuation of Hedge Accounting" (issued in June 2013 and effective for annual periods beginning 1 January 2014). The amendments allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated (i.e parties have agreed to replace their original counterparty with a new one) to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met. The amended standard did not have a material impact on the Group.

5 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2015 or later, and which the Group has not early adopted.

IFRS 9 "Financial Instruments: Classification and Measurement" (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The Group is currently assessing the impact of the new standard on its financial statements.

Amendments to IAS 19 – "Defined benefit plans: Employee contributions" (issued in November 2013 and effective for annual periods beginning 1 July 2014). The amendment allows entities to recognise employee contributions as a reduction in the service cost in the period in which the related employee service is rendered, instead of attributing the contributions to the periods of service, if the amount of the employee contributions is independent of the number of years of service. The amendment is not expected to have any material impact on the Group's financial statements.

Annual Improvements to IFRSs 2012 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014, unless otherwise stated below). The improvements consist of changes to seven standards.

IFRS 2 was amended to clarify the definition of a 'vesting condition' and to define separately 'performance condition' and 'service condition'; The amendment is effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

IFRS 3 was amended to clarify that (1) an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, and (2) all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss. Amendments to IFRS 3 are effective for business combinations where the acquisition date is on or after 1 July 2014.

IFRS 8 was amended to require (1) disclosure of the judgements made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and (2) a reconciliation of segment assets to the entity's assets when segment assets are reported.

The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial.

Notes to the Consolidated Financial Statements

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5 New Accounting Pronouncements Continued

IAS 16 and IAS 38 were amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model.

IAS 24 was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity'), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided.

The amendments are not expected to have material impact on the Group's financial statements.

Annual Improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014). The improvements consist of changes to four standards.

The basis for conclusions on IFRS 1 is amended to clarify that, where a new version of a standard is not yet mandatory but is available for early adoption; a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented.

IFRS 3 was amended to clarify that it does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself.

The amendment of IFRS 13 clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including contracts to buy or sell non-financial items) that are within the scope of IAS 39 or IFRS 9.

IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination.

The amendments are not expected to have material impact on the Group's financial statements.

IFRS 14, Regulatory deferral accounts (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016). IFRS 14 permits first-time adopters to continue to recognise amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognise such amounts, the standard requires that the effect of rate regulation must be presented separately from other items. An entity that already presents IFRS financial statements is not eligible to apply the standard.

Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11 (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016). This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amended is not expected to have any material impact on the Group's financial statements.

Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38 (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016). In this amendment, the IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The amended is not expected to have any material impact on the Group's financial statements.

IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2017). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The amended is not expected to have any material impact on the Group's financial statements.

5 New Accounting Pronouncements Continued

Agriculture: Bearer plants – Amendments to IAS 16 and IAS 41 (issued on 30 June 2014 and effective for annual periods beginning 1 January 2016). The amendments change the financial reporting for bearer plants, such as grape vines, rubber trees and oil palms, which now should be accounted for in the same way as property, plant and equipment because their operation is similar to that of manufacturing. Consequently, the amendments include them within the scope of IAS 16, instead of IAS 41. The produce growing on bearer plants will remain within the scope of IAS 41. The amended is not expected to have any material impact on the Group's financial statements.

Equity Method in Separate Financial Statements – Amendments to IAS 27 (issued on 12 August 2014 and effective for annual periods beginning 1 January 2016). The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The amended is not expected to have any material impact on the Group's financial statements.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after 1 January 2016). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. The amended is not expected to have any material impact on the Group's financial statements.

Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016). The amendments impact 4 standards. IFRS 5 was amended to clarify that change in the manner of disposal (reclassification from "held for sale" to "held for distribution" or vice versa) does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such. The amendment to IFRS 7 adds guidance to help management determine whether the terms of an arrangement to service a financial asset which has been transferred constitute continuing involvement, for the purposes of disclosures required by IFRS 7. The amendment also clarifies that the offsetting disclosures of IFRS 7 are not specifically required for all interim periods, unless required by IAS 34. The amendment to IAS 19 clarifies that for post-employment benefit obligations, the decisions regarding discount rate, existence of deep market in high-quality corporate bonds, or which government bonds to use as a basis, should be based on the currency that the liabilities are denominated in, and not the country where they arise. IAS 34 will require a cross reference from the interim financial statements to the location of "information disclosed elsewhere in the interim financial report". The amended is not expected to have any material impact on the Group's financial statements.

Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods on or after 1 January 2016). The Standard was amended to clarify the concept of materiality and explains that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, even if the IFRS contains a list of specific requirements or describes them as minimum requirements. The Standard also provides new guidance on subtotals in financial statements, in particular, such subtotals (a) should be comprised of line items made up of amounts recognised and measured in accordance with IFRS; (b) be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable; (c) be consistent from period to period; and (d) not be displayed with more prominence than the subtotals and totals required by IFRS standards. The amended is not expected to have any material impact on the Group's financial statements.

Investment Entities: Applying the Consolidation Exception Amendment to IFRS 10, IFRS 12 and IAS 28 (issued in December 2014 and effective for annual periods on or after 1 January 2016). The Standard was amended to clarify that an investment entity should measure at fair value through profit or loss all of its subsidiaries that are themselves investment entities. In addition, the exemption from preparing consolidated financial statements if the entity's ultimate or any intermediate parent produces consolidated financial statements available for public use was amended to clarify that the exemption applies regardless whether the subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with IFRS 10 in such ultimate or any intermediate parent's financial statements. The amended is not expected to have any material impact on the Group's financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group's consolidated financial statements.

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6 Cash and Cash Equivalents

In thousands of GEL	2014	2013	2012
Cash on hand	**202,384**	165,385	139,362
Cash balances with the National Bank of Georgia (other than mandatory reserve deposits)	**138,396**	61,407	71,707
Correspondent accounts and overnight placements with other banks	**100,305**	79,643	163,869
Placements with and receivables from other banks with original maturities of less than three months	**91,033**	84,030	23,649
Total cash and cash equivalents	**532,118**	**390,465**	**398,587**

92% of correspondent accounts and overnight placements with other banks are placed with OECD banking institutions (31 December 2013: 93%; 31 December 2012: 98%).

As at 31 December 2014 GEL 91,033 thousand was placed on interbank term deposits with five non-OECD banks (31 December 2013: 84,030 thousand with four non-OECD banks; 31 December 2012: 23,649 thousand with eight non-OECD banks).

Interest rate analysis of cash and cash equivalents is disclosed in Note 34.

Credit rating of correspondent accounts and overnight placements with other banks is as follows:

In thousands of GEL	2014	2013	2012
A+	**48,873**	58,192	62,137
A	**42,452**	14,904	94,792
BBB	**329**	1,844	764
BBB-	**–**	–	11
BB+	**401**	–	–
BB	**–**	–	3,591
BB-	**4,151**	262	–
B+	**–**	–	511
B	**168**	570	–
B-	**–**	1,170	277
Not rated	**3,931**	2,701	1,786
Total	**100,305**	**79,643**	**163,869**

Credit rating of placements with and receivables from other banks with original maturities of less than three months is as follows:

In thousands of GEL	2014	2013	2012
BB+	**–**	70,042	16,369
BB	**89,165**	–	–
BB-	**1,868**	–	–
Not rated	**–**	13,988	7,280
Total	**91,033**	**84,030**	**23,649**

The table contains ratings of Standard & Poor's and Fitch Ratings international agencies. When different credit ratings are designated by the agencies, the highest designated rating for this asset is used.

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7 Due from Other Banks

Amounts due from other banks include placements with original maturities of more than three months that are not collateralised and represent neither past due nor impaired amounts at the end of 2014, 2013 and 2012.

Credit rating of placements with other banks with original maturities of more than three months is as follows:

In thousands of GEL	2014	2013	2012
A	3,839	–	–
BBB+	56	–	–
BB+	15,924	–	–
B	5,970	–	–
Not rated	7,915	1,708	29,542
Total	**33,704**	**1,708**	**29,542**

At 31 December 2014 the Group had placements with original maturities of more than three months with three counterparty banks with aggregated amounts above GEL 5,000 thousand (2013: nil; 2012: 1 bank). The total aggregate amount of these placements was GEL 29,179 thousand (2013: nil; 2012: 28,164 thousand) or 87% of the total amount due from other banks (2013: nil; 2012:95.3%).

As of 31 December 2014 GEL 4,525 thousand, (2013: GEL 1,615 thousand; 2012 GEL 1,213 thousand) were kept on deposits as restricted cash under an arrangement with a credit card company or credit card related services with other banks. Refer to Note 40 for the estimated fair value of amounts due from other banks. Interest rate analysis of due from other banks is disclosed in Note 34.

8 Mandatory cash balances with the National Bank of Georgia

Mandatory cash balances with the National Bank of Georgia ("NBG") represent amounts deposited with the NBG. Resident financial institutions are required to maintain an interest-earning obligatory reserve with the NBG, the amount of which depends on the level of funds attracted by the financial institutions. The Group earned up to 2% annual interest on the mandatory reserve with the NBG in 2014, 2013 and 2012.

In 2014, Fitch Ratings re-affirmed government of Georgia's short-term sovereign credit rating of "B" and long-term credit rating of "BB-".

9 Loans and Advances to Customers

In thousands of GEL	2014	2013	2012
Corporate loans	1,231,729	1,157,334	1,142,087
Consumer loans	781,043	603,434	482,704
Mortgage loans	716,868	499,428	385,416
Loans to small and medium enterprises	533,919	392,446	294,217
Micro loans	273,699	201,287	145,931
Others	169,002	104,652	86,343
Total loans and advances to customers (before impairment)	**3,706,260**	**2,958,581**	**2,536,698**
Less: Provision for loan impairment	(149,764)	(156,869)	(166,498)
Total loans and advances to customers	**3,556,496**	**2,801,712**	**2,370,200**

Included in the consumer loans are consumer loans, card loans, overdrafts, express and fast loans and other loans.

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9 Loans and Advances to Customers Continued

Movements in the provision for loan impairment during 2014 are as follows:

In thousands of GEL	Corporate loans	Consumer loans	Mortgage loans	Small and medium enterprises	Micro loans	Other	Total
Provision for loan impairment at 1 January 2014	**107,666**	**31,704**	**8,292**	**4,315**	**4,892**	**–**	**156,869**
Total provision for impairment during the year:	29,461	26,886	3,323	4,173	8,263	36	72,142
Provision for impairment charged to income statement during the year	18,995	20,362	1,666	1,625	6,006	18	48,672
Recoveries of loans previously written off	10,466	6,524	1,657	2,548	2,257	18	23,470
Amounts written off during the year as uncollectible	(45,901)	(21,837)	(2,726)	(3,200)	(5,547)	(36)	(79,247)
Provision for loan impairment at 31 December 2014	**91,226**	**36,753**	**8,889**	**5,288**	**7,608**	**–**	**149,764**

Loans and advances to customers written off in 2014 included loans to customers in the gross amount of GEL 7,142 thousand issued during 2014, a previously issued performance guarantee of GEL 4,823 thousand which was transformed into loan in 2014 and GEL 67,282 thousand issued in prior years.

Included in the amounts written off during the period as uncollectible is the provision of GEL 20,154 thousand for a corporate loan part of which was recovered in June 2014 through repossession of financial instruments amounting to GEL 3,014 thousand which are accounted for under investment securities available for sale.

Movements in the provision for loan impairment during 2013 are as follows:

In thousands of GEL	Corporate loans	Consumer loans	Mortgage loans	Small and medium enterprises	Micro loans	Total
Provision for loan impairment at 1 January 2013	**112,975**	**31,156**	**13,186**	**4,820**	**4,361**	**166,498**
Total provision for/(recovery of) impairment during the year:	21,203	22,789	(2,316)	1,846	4,234	47,756
Provision for/(recovery of) impairment charged to income statement during the year	17,035	18,029	(4,652)	88	2,471	32,971
Recoveries of loans previously written off	4,168	4,760	2,336	1,758	1,763	14,785
Amounts written off during the year as uncollectible	(26,512)	(22,241)	(2,578)	(2,351)	(3,703)	(57,385)
Provision for loan impairment at 31 December 2013	**107,666**	**31,704**	**8,292**	**4,315**	**4,892**	**156,869**

Loans and advances to customers written off in 2013 included loans to customers in the gross amount of GEL 7,387 thousand issued during 2013 and GEL 49,998 thousand issued in prior years.

9 Loans and Advances to Customers Continued

Movements in the provision for loan impairment during 2012 are as follows:

In thousands of GEL	Corporate loans	Consumer loans	Mortgage loans	Small and medium enterprises	Micro loans	Total
Provision for loan impairment at 1 January 2012	**114,106**	**25,833**	**12,661**	**5,459**	**601**	**158,660**
Total provision for impairment during the year:	10,993	22,040	2,541	2,571	5,056	43,201
Provision for impairment charged to income statement during the year	1,190	15,649	649	1,198	4,468	23,154
Recoveries of loans previously written off	9,803	6,391	1,892	1,373	588	20,047
Amounts written off during the year as uncollectible	(12,124)	(16,717)	(2,016)	(3,210)	(1,296)	(35,363)
Provision for loan impairment at 31 December 2012	**112,975**	**31,156**	**13,186**	**4,820**	**4,361**	**166,498**

Loans and advances to customers written off in 2012 included loans to customers in the gross amount of GEL 1,613 thousand issued during 2012 and GEL 33,750 thousand issued in prior years.

For terms of loans and advances to related parties, impairment provisions made against those loans and amounts written off during the year refer to Note 42.

Economic sector risk concentrations within the customer loan portfolio are as follows:

	2014		2013		2012	
In thousands of GEL	Amount	%	Amount	%	Amount	%
Individual	**1,497,911**	**40%**	1,102,862	37%	868,120	34%
Service	**575,525**	**15%**	539,825	18%	487,938	19%
Agriculture	**265,562**	**7%**	164,441	6%	119,935	5%
Energy	**216,500**	**6%**	106,083	4%	79,929	3%
Consumer goods and automobile trading	**175,681**	**5%**	130,152	4%	132,579	5%
Pawn shop	**169,002**	**5%**	104,652	4%	86,343	4%
Real estate	**165,937**	**4%**	132,321	5%	149,328	6%
Food industry	**141,283**	**4%**	158,865	5%	109,031	4%
Oil and gas	**102,912**	**3%**	121,921	4%	143,355	6%
Construction	**95,111**	**3%**	101,879	3%	108,914	4%
Communication	**94,309**	**2%**	102,547	4%	82,360	3%
Transportation	**64,720**	**2%**	67,223	2%	70,453	3%
Manufacturing	**42,086**	**1%**	33,609	1%	30,073	1%
Mining	**29,952**	**1%**	40,346	1%	31,140	1%
Other	**69,769**	**2%**	51,855	2%	37,200	2%
Total loans and advances to customers (before impairment)	**3,706,260**	**100%**	**2,958,581**	**100%**	**2,536,698**	**100%**

Service sector contains loans disbursed to consumer service, healthcare, media and financial service industries.

At 31 December 2014 the Group had 71 borrowers (2013: 62 borrower; 2012: 61 borrowers) with aggregated loan amounts above GEL 5,000 thousand. The total aggregate amount of these loans was GEL 1,031,720 thousand (2013: GEL 910,248 thousand; 2012: GEL 879,619 thousand) or 27.8% of the gross loan portfolio (2013: 31%; 2012: 35%).

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9 Loans and Advances to Customers Continued

Analysis by credit quality of loans outstanding at 31 December 2014 is as follows:

In thousands of GEL	Corporate loans	Consumer loans	Mortgage loans	Small and medium enterprises	Micro loans	Others	Total
Neither past due nor impaired							
– Borrowers with credit history over two years	784,212	415,328	470,873	248,251	106,930	110,731	**2,136,325**
– New borrowers	290,596	323,911	235,411	267,137	154,407	56,316	**1,327,778**
Total neither past due nor impaired	**1,074,808**	**739,239**	**706,284**	**515,388**	**261,337**	**167,047**	**3,464,103**
Past due but not impaired							
– 1 to 30 days overdue	229	13,281	3,165	5,156	3,345	1,151	**26,327**
– 31 to 90 days overdue	2,377	201	40	288	151	503	**3,560**
– 91 to 180 days overdue	–	3	–	–	56	107	**166**
– 181 to 360 days overdue	–	8	–	–	–	88	**96**
– more than 360 days overdue	–	6	–	–	–	106	**112**
Total past due but not impaired	**2,606**	**13,499**	**3,205**	**5,444**	**3,552**	**1,955**	**30,261**
Individually assessed impaired loans (gross)							
– not overdue	124,483	–	–	2,506	–	–	**126,989**
– 1 to 30 days overdue	18,270	–	–	–	–	–	**18,270**
– 31 to 90 days overdue	4,227	–	–	–	–	–	**4,227**
– 91 to 180 days overdue	325	–	–	–	–	–	**325**
Total individually assessed impaired loans	**147,305**	**–**	**–**	**2,506**	**–**	**–**	**149,811**
Collectively assessed impaired loans (gross)							
– not overdue	6,783	9,267	2,089	1,119	3,383	–	**22,641**
– 1 to 30 days overdue	4	1,020	113	68	1,670	–	**2,875**
– 31 to 90 days overdue	207	7,445	2,912	4,942	1,861	–	**17,367**
– 91 to 180 days overdue	16	7,641	2,022	2,771	1,625	–	**14,075**
– 181 to 360 days overdue	–	2,189	243	1,309	268	–	**4,009**
– more than 360 days overdue	–	743	–	372	3	–	**1,118**
Total collectively assessed impaired loans	**7,010**	**28,305**	**7,379**	**10,581**	**8,810**	**–**	**62,085**
Total loans and advances to customers (before impairment)	**1,231,729**	**781,043**	**716,868**	**533,919**	**273,699**	**169,002**	**3,706,260**
Total provision	**(91,226)**	**(36,753)**	**(8,889)**	**(5,288)**	**(7,608)**	**–**	**(149,764)**
Total loans and advances to customers	**1,140,503**	**744,290**	**707,979**	**528,631**	**266,091**	**169,002**	**3,556,496**

9 Loans and Advances to Customers Continued

Analysis by credit quality of loans outstanding at 31 December 2013 is as follows:

In thousands of GEL	Corporate loans	Consumer loans	Mortgage loans	Small and medium enterprises	Micro loans	Others	Total
Neither past due nor impaired							
– Borrowers with credit history over two years	619,783	285,199	335,855	179,036	70,208	9,509	1,499,590
– New borrowers	342,499	284,794	152,859	198,371	124,258	92,141	1,194,922
Total neither past due nor impaired	**962,282**	**569,993**	**488,714**	**377,407**	**194,466**	**101,650**	**2,694,512**
Past due but not impaired							
– 1 to 30 days overdue	1,012	11,973	3,735	5,287	1,827	1,440	25,274
– 31 to 90 days overdue	409	58	11	635	–	1,136	2,249
– 91 to 180 days overdue	2,786	13	–	–	–	77	2,876
– 181 to 360 days overdue	–	–	–	–	–	78	78
– more than 360 days overdue	–	–	–	–	–	271	271
Total past due but not impaired	**4,207**	**12,044**	**3,746**	**5,922**	**1,827**	**3,002**	**30,748**
Individually assessed impaired loans (gross)							
– not overdue	175,635	–	–	2,335	–	–	177,970
– 31 to 90 days overdue	357	–	–	–	–	–	357
– 91 to 180 days overdue	4,303	–	–	–	–	–	4,303
– 181 to 360 days overdue	6,040	–	–	–	–	–	6,040
Total individually assessed impaired loans	**186,335**	**–**	**–**	**2,335**	**–**	**–**	**188,670**
Collectively assessed impaired loans (gross)							
– not overdue	2,727	2,145	2,191	2,075	1,349	–	10,487
– 1 to 30 days overdue	–	776	485	131	454	–	1,846
– 31 to 90 days overdue	–	8,794	2,624	1,184	1,669	–	14,271
– 91 to 180 days overdue	295	7,014	1,234	1,702	1,328	–	11,573
– 181 to 360 days overdue	1,488	2,259	434	1,529	14	–	5,724
– more than 360 days overdue	–	409	–	161	180	–	750
Total collectively assessed impaired loans	**4,510**	**21,397**	**6,968**	**6,782**	**4,994**	**–**	**44,651**
Total loans and advances to customers (before impairment)	**1,157,334**	**603,434**	**499,428**	**392,446**	**201,287**	**104,652**	**2,958,581**
Total provision	**(107,666)**	**(31,704)**	**(8,292)**	**(4,315)**	**(4,892)**	**–**	**(156,869)**
Total loans and advances to customers	**1,049,668**	**571,730**	**491,136**	**388,131**	**196,395**	**104,652**	**2,801,712**

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9 Loans and Advances to Customers Continued

Analysis by credit quality of loans outstanding at 31 December 2012 is as follows:

In thousands of GEL	Corporate loans	Consumer loans	Mortgage loans	Small and medium enterprises	Micro loans	Others	Total
Neither past due nor impaired							
– Borrowers with credit history over two years	583,682	214,312	236,243	120,317	672	4,134	1,159,360
– New borrowers	354,076	237,939	128,516	162,895	137,690	82,209	1,103,325
Total neither past due nor impaired	**937,758**	**452,251**	**364,759**	**283,212**	**138,362**	**86,343**	**2,262,685**
Past due but not impaired							
– 1 to 30 days overdue	4,251	8,945	4,590	2,051	930	–	20,767
– 31 to 90 days overdue	414	4,469	3,048	430	–	–	8,361
– 91 to 180 days overdue	123	27	–	10	–	–	160
– 181 to 360 days overdue	6	–	–	–	–	–	6
Total past due but not impaired	**4,794**	**13,441**	**7,638**	**2,491**	**930**	**–**	**29,294**
Individually assessed impaired loans (gross)							
– not overdue	173,965	–	–	–	–	–	173,965
– 31 to 90 days overdue	13,377	–	–	–	–	–	13,377
– 91 to 180 days overdue	3,334	–	–	–	–	–	3,334
- 181 to 360 days overdue	4,115	–	–	–	–	–	4,115
Total individually assessed impaired loans	**194,791**	**–**	**–**	**–**	**–**	**–**	**194,791**
Collectively assessed impaired loans (gross)							
- not overdue	2,811	3,177	8,407	4,904	1,753	–	21,052
- 1 to 30 days overdue	1,134	600	232	94	104	–	2,164
- 31 to 90 days overdue	–	2,968	623	2,126	2,335	–	8,052
- 91 to 180 days overdue	35	6,665	2,401	510	2,447	–	12,058
- 181 to 360 days overdue	764	3,128	1,356	590	–	–	5,838
- more than 360 days overdue	–	474	–	290	–	–	764
Total collectively assessed impaired loans	**4,744**	**17,012**	**13,019**	**8,514**	**6,639**	**–**	**49,928**
Total loans and advances to customers (before impairment)	**1,142,087**	**482,704**	**385,416**	**294,217**	**145,931**	**86,343**	**2,536,698**
Total provision	**(112,975)**	**(31,156)**	**(13,186)**	**(4,820)**	**(4,361)**	**–**	**(166,498)**
Total loans and advances to customers	**1,029,112**	**451,548**	**372,230**	**289,397**	**141,570**	**86,343**	**2,370,200**

The retail segment in Note 27 includes the following classes from above tables: consumer, mortgage and other. Included in other are primarily pawn shop loans secured with precious metals.

The Group applied the portfolio provisioning methodology prescribed by IAS 39, Financial Instruments: Recognition and Measurement, and created portfolio provisions for impairment losses that were incurred but have not been specifically identified with any individual loan by the end of reporting period.

The tables above show analysis of loan portfolio based on credit quality. The Group's policy for credit risk management purposes is to classify each loan as 'neither past due nor impaired' until specific objective evidence of impairment of the loan is identified. The primary factors by which the Group considers a loan as impaired are: overdue status of loan, financial position of a borrower and fair value of related collateral. The Group conducts impairment analysis of each individual loan on a quarterly basis.

Past due, but not impaired, loans primarily include collateralised loans where the fair value of collateral covers the overdue interest and principal repayments. The amount reported as past due but not impaired is the whole balance of such loans, not only the individual instalments that are past due.

9 Loans and Advances to Customers Continued

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. The main types of collateral obtained are the following:

- Real estate properties,
- inventory and equipment,
- cash covers,
- third party guarantees.

The financial effect of collateral is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets").

The effect of collateral at 31 December 2014:

	Over-collateralised Assets		Under-collateralised assets	
In thousands of GEL	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Corporate loans	943,782	2,366,233	287,947	97,485
Consumer loans	496,838	1,129,883	284,205	15,843
Mortgage loans	690,576	1,683,436	26,292	9,011
Loans to small and medium enterprises	509,732	1,502,898	24,187	9,527
Micro loans	134,707	264,571	138,992	3,584
Others	163,960	189,920	5,042	4,883
Total	**2,939,595**	**7,136,941**	**766,665**	**140,333**

The effect of collateral at 31 December 2013:

	Over-collateralised Assets		Under-collateralised assets	
In thousands of GEL	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Corporate loans	745,948	1,819,917	411,386	321,064
Consumer loans	404,098	955,249	199,336	6,054
Mortgage loans	476,713	1,182,387	22,715	6,531
Loans to small and medium enterprises	369,125	1,104,910	23,321	7,567
Micro loans	93,632	189,155	107,655	1,189
Others	99,637	115,216	5,015	4,752
Total	**2,189,153**	**5,366,834**	**769,428**	**347,157**

The effect of collateral at 31 December 2012:

	Over-collateralised Assets		Under-collateralised assets	
In thousands of GEL	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Corporate loans	774,701	1,873,588	367,386	203,772
Consumer loans	300,655	744,061	182,049	6,555
Mortgage loans	363,332	999,838	22,084	6,705
Loans to small and medium enterprises	271,350	789,728	22,867	6,256
Micro loans	57,368	124,177	88,563	775
Others	81,758	81,990	4,585	4,412
Total	**1,849,164**	**4,613,382**	**687,534**	**228,475**

The effect of collateral is determined by comparison of fair value of collateral to gross loans and advances outstanding at the reporting date.

The Group's internal appraiser performed physical inspection of pledged real estate and estimated the fair value of real estate at the balance sheet date using primarily market comparison method. Fair value of inventory, equipment and other assets was determined by the Group's credit department using the Group's internal guidelines.

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9 Loans and Advances to Customers Continued

Refer to Note 40 for the estimated fair value of each class of loans and advances to customers. Interest rate analysis of loans and advances to customers is disclosed in Note 34. Information on related party balances is disclosed in Note 42.

10 Investment Securities Available for Sale

In thousands of GEL	2014	2013	2012
Georgian Government notes	232,934	173,974	196,004
Certificates of Deposit of the National Bank of Georgia	198,233	321,140	187,551
Corporate bonds	25,034	–	–
Ministry of Finance of Georgia Treasury Bills	476	–	19,210
Total debt securities	**456,677**	**495,114**	**402,765**
Corporate shares – quoted (VISA Inc)	6,140	4,858	3,156
Corporate shares – unquoted	3,693	679	1,812
Total investment securities available for sale	**466,510**	**500,651**	**407,733**

Management could not reliably estimate the fair value of the Group's investment in shares of its unquoted equity investment securities available for sale. Therefore, these investments are carried at cost of GEL 3,693 thousand (2013: GEL 679 thousand; 2012: GEL 1,812 thousand). The investees have not published recent financial information about their operations, their shares are not quoted and recent trade prices are not publicly accessible.

At 31 December 2014 investment securities available for sale carried at GEL 173,239 thousand have been pledged to local banks or financial institutions as collateral with respect to other borrowed funds (2013: GEL 84,086 thousand; 2012: GEL 54,800 thousand). Refer to Note 17.

None of the debt securities available for sale are overdue or impaired.

At 31 December 2014 the principal equity investment securities available for sale are:

			Carrying value at 31 December		
Name	Nature of business	Country of registration	2014	2013	2012
Visa Inc.	Card Processing	USA	6,140	4,858	3,156
LTD Caucasus Online	Telecommunication	Georgia	3,014	–	–
JSC GRDC	Property development	Netherlands Antilles	365	365	1,502
Other			314	314	310
Total			**9,833**	**5,537**	**4,968**

The movements in investment securities available for sale are as follows:

In thousands of GEL	Note	2014	2013	2012
Carrying amount at 1 January		**500,651**	**407,733**	**266,436**
Purchases		848,679	755,433	813,864
Disposals		(51,369)	(61,626)	(90,857)
Redemption at maturity		(843,695)	(619,902)	(599,913)
Revaluation	28	(1,849)	7,923	682
Interest income accrued	29	30,361	30,442	27,211
Interest income received		(16,246)	(18,210)	(9,680)
Impairment related to investment in equity security		(22)	(1,142)	(10)
Carrying amount at 31 December		**466,510**	**500,651**	**407,733**

11 Other Financial Assets

In thousands of GEL	2014	2013	2012
Prepayments for purchase of leasing assets	13,032	13,516	6,859
Receivables on guarantees	11,728	11,660	10,890
Receivables on credit card services and money transfers	9,440	6,557	3,349
Receivable on terminated leases	3,323	2,249	4,345
Other	10,564	14,147	6,743
Less: Provision for impairment	(4,230)	(3,080)	(6,885)
Total other financial assets	**43,857**	**45,049**	**25,301**

Movements in the provision for impairment of other financial assets during 2014 are as follows:

In thousands of GEL	Receivables on terminated leases	Other	Total
Provision for impairment at 1 January 2014	**2,054**	**1,026**	**3,080**
Provision for impairment during the year	533	703	1,236
Amounts written off during the year as uncollectible	(14)	(409)	(423)
Recovery of amounts previously written off	–	337	337
Provision for impairment at 31 December 2014	**2,573**	**1,657**	**4,230**

Movements in the provision for impairment of other financial assets during 2013 are as follows:

In thousands of GEL	Receivables on terminated leases	Other	Total
Provision for impairment at 1 January 2013	**3,887**	**2,998**	**6,885**
Provision for impairment during the year	236	2,000	2,236
Amounts written off during the year as uncollectible	(2,069)	(4,022)	(6,091)
Recovery of amounts previously written off	–	50	50
Provision for impairment at 31 December 2013	**2,054**	**1,026**	**3,080**

Movements in the provision for impairment of other financial assets during 2012 are as follows:

In thousands of GEL	Receivables on terminated leases	Other	Total
Provision for impairment at 1 January 2012	**3,966**	**–**	**3,966**
Provision for impairment during the year	579	3,553	4,132
Amounts written off during the year as uncollectible	(658)	(736)	(1,394)
Recovery of amounts previously written off	–	181	181
Provision for impairment at 31 December 2012	**3,887**	**2,998**	**6,885**

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11 Other Financial Assets Continued

Analysis by credit quality of other financial receivables is as follows:

In thousands of GEL	2014	2013	2012
Neither past due nor impairment			
– Prepayments for purchase of leasing assets	13,032	13,516	6,859
– Receivables on credit card services and money transfers	9,440	6,557	3,349
– Receivables on guarantees	836	880	1,084
– Other	8,763	11,830	3,873
Total neither past due nor impaired	**32,071**	**32,783**	**15,165**
Past due but not impaired			
– Receivables on guarantees			
– more than 90 days overdue	10,892	10,780	9,806
Total past due but not impaired	**10,892**	**10,780**	**9,806**
Receivables individually determined to be impaired (gross)			
– Receivables on terminated leases	3,323	2,249	4,345
– less than 90 days overdue	–	–	175
– more than 90 days overdue	3,323	2,249	4,170
– Other receivables	1,801	2,317	2,870
– less than 90 days overdue	–	504	2,870
– more than 90 days overdue	1,801	1,813	–
Total individually impaired (gross)	**5,124**	**4,566**	**7,215**
Less impairment provision	**(4,230)**	**(3,080)**	**(6,885)**
Total other financial assets	**43,857**	**45,049**	**25,301**

Receivables individually determined to be impaired include receivables on terminated leases and other receivables for which impairment provision was assessed individually. The primary factors by which the Group considers a receivable as impaired is overdue status. Receivables on terminated leases are under-collateralised, estimated fair value of collateral on these equals GEL 808 thousand (2013: GEL 95 thousand; 2012: GEL 472 thousand). The remaining assets are not collateralized.

12 Investments in Finance Lease

Investments in finance lease of GEL 50,907 thousand (2013: GEL 35,613 thousand; 2012: GEL 26,377 thousand) are represented by leases of equipment.

Finance lease payments receivable (gross investment in the leases) and their present values are as follows:

In thousands of GEL	Due in 1 year	Due between 2 and 5 years	Total
Finance lease payments receivable at 31 December 2014	36,414	27,662	**64,076**
Unearned finance income	(8,380)	(4,594)	**(12,974)**
Impairment loss provision	(126)	(69)	**(195)**
Present value of lease payments receivable at 31 December 2014	**27,908**	**22,999**	**50,907**
Finance lease payments receivable at 31 December 2013	**24,775**	**20,592**	**45,367**
Unearned finance income	(5,941)	(3,636)	**(9,577)**
Impairment loss provision	(110)	(67)	**(177)**
Present value of lease payments receivable at 31 December 2013	**18,724**	**16,889**	**35,613**
Finance lease payments receivable at 31 December 2012	**18,616**	**15,418**	**34,034**
Unearned finance income	(4,629)	(2,914)	**(7,543)**
Impairment loss provision	(71)	(43)	**(114)**
Present value of lease payments receivable at 31 December 2012	**13,916**	**12,461**	**26,377**

At 31 December 2014 the estimated fair value of financial lease receivables was GEL 50,907 thousand (2013: GEL 35,613 thousand; 2012: GEL 26,377 thousand). Refer to Note 40.

12 Investments in Finance Lease Continued

Movements in the provision for impairment of net investment in finance lease are as follows:

In thousands of GEL	31 December 2014	31 December 2013	31 December 2012
Provision for impairment at the beginning of the year	**177**	**114**	**108**
Provision for impairment during the year	77	98	42
Amounts written off during the year as uncollectible	(59)	(35)	(27)
Transfer from receivable from terminated leases	–	–	(9)
Provision for impairment at the end of the year	**195**	**177**	**114**

Analysis by credit quality of net investment in finance lease is as follows:

In thousands of GEL	31 December 2014	31 December 2013	31 December 2012
Neither past due nor impaired			
- Customers with more than two year experience	9,570	8,750	7,044
- New customers	30,442	19,854	15,365
Total neither past due nor impaired	**40,012**	**28,604**	**22,409**
Past due but not impaired			
- Less than 30 days overdue	6,213	3,261	872
- 31 to 90 days overdue	1,479	–	–
- 91 to 180 days overdue	424	–	–
- 180 days to 360 days overdue	67	–	6
Total past due but not impaired	**8,183**	**3,261**	**878**
Individually impaired			
- Not overdue	1,926	2,419	2,686
- 1 to 30 days overdue	568	603	385
- 31 days to 90 days overdue	75	59	133
- From 91 to 180 days	197	583	–
- From 181 to 360 days	–	251	–
- More than 360 days	141	10	–
Individually impaired gross	**2,907**	**3,925**	**3,204**
Total investment in finance lease- gross	**51,102**	**35,790**	**26,491**
Impairment loss provision	(195)	(177)	(114)
Total net investment in finance lease	**50,907**	**35,613**	**26,377**

The Group applied the portfolio provisioning methodology prescribed by IAS 39, Financial Instruments: Recognition and Measurement, and created portfolio provisions for impairment losses that were incurred but have not been specifically identified with any individual lease by the reporting date. The Group's policy is to classify each lease as "neither past due nor impaired" until specific objective evidence of impairment of the lease is identified. The primary factors that the Group considers whether a lease is impaired are deterioration of financial position of lessee, its overdue status and realisability of the leased asset.

The Group normally structures its finance lease contracts so that the lessee makes a minimum prepayment of 20% of the equipment purchase price at the inception of the lease term. The Group holds title to the leased assets during the lease term. The title to the asset under finance lease contract is transferred to the lessees at the end of the contracts terms, including full repayment of lease payments. Generally the lease terms are up to five years.

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. The main types of collateral obtained are the following:

- Leased assets (inventory and equipment)
- Down payment
- Real estate properties,
- Third party guarantees.

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12 Investments in Finance Lease Continued

The financial effect of collateral is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset ("over-collateralized assets") and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralized assets").

The effect of collateral at 31 December 2014:

	Over-collateralised assets		Under-collateralised assets	
In thousands of GEL	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Investment in leases	45,608	79,134	5,494	3,616
Total	**45,608**	**79,134**	**5,494**	**3,616**

The effect of collateral at 31 December 2013:

	Over-collateralised assets		Under-collateralised assets	
In thousands of GEL	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Investment in leases	32,280	62,169	3,510	3,229
Total	**32,280**	**62,169**	**3,510**	**3,229**

The effect of collateral at 31 December 2012:

	Over-collateralised assets		Under-collateralised assets	
In thousands of GEL	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Investment in leases	24,670	51,590	1,821	221
Total	**24,670**	**51,590**	**1,821**	**221**

13 Other Assets

In thousands of GEL	2014	2013	2012
Current other assets			
Inventories of repossessed collateral	**60,480**	49,920	56,316
Prepayments for other assets	**3,724**	3,006	3,401
Other inventories	**2,961**	3,130	3,383
Prepaid taxes other than income tax	**1,718**	402	528
Total current other assets	**68,883**	**56,458**	**63,628**
Non-current other assets			
Assets repossessed from terminated leases	**3,797**	1,752	1,852
Prepayments for construction in progress	**2,078**	5,016	905
Prepaid insurance of leasing assets	**609**	482	347
Assets purchased for leasing purposes	**545**	–	413
Other	**1,863**	1,367	209
Total non-current other assets	**8,892**	**8,617**	**3,726**
Total other assets	**77,775**	**65,075**	**67,354**

Inventories of repossessed collateral represents real estate assets and equipment acquired by the Group in settlement of overdue loans, other than those classified as investment property or premises and equipment. The Group expects to dispose of the assets in the foreseeable future. Such assets are initially recognised at fair value and subsequently measured at lower of cost and net realisable value.

With respect to certain inventories of repossessed collaterals, the Group has granted the previous owners a right to repurchase the inventories at prices equal to or higher than the carrying value of the loan at the date of repossession. This right is usually effective for a period of 6 to 12 months from the date of repossession during which the Group obliges not to dispose of the repossessed collateral to third parties. As of 31 December 2014, the carrying value of the inventories of repossessed collateral which were subject to the repurchase agreement was GEL 33,283 thousand (2013: GEL 19,840 thousand, 2012: GEL 16,158 thousand).

14 Premises, Equipment and Intangible Assets

In thousands of GEL	Note	Premises and leasehold improvements	Office and computer equipment	Construction in progress	Total premises and equipment	Computer software licences	Total
Cost or valuation at 1 January 2012		124,851	86,677	19,782	231,310	16,272	247,582
Accumulated depreciation/amortisation							
Including accumulated impairment loss		(18,302)	(49,129)	–	(67,431)	(6,208)	(73,639)
Carrying amount at 1 January 2012		**106,549**	**37,548**	**19,782**	**163,879**	**10,064**	**173,943**
Additions		1,892	16,533	23,969	42,394	10,750	53,144
Transfers		15,751	309	(16,060)	–	–	–
Transfers from Investment Property, net	15	(2,418)	–	–	(2,418)	–	(2,418)
Disposals		(2,149)	(5,478)	(609)	(8,236)	(16)	(8,252)
Transfer to Inventory		–	(309)	–	(309)	–	(309)
Increase / (decrease) in value on revaluation	28	1,585	–	8,928	10,513	–	10,513
Impairment charge to profit and loss		(768)	(1)	–	(769)	(1)	(770)
Depreciation/amortisation charge		(4,275)	(15,360)	–	(19,635)	(2,015)	(21,650)
Elimination of accumulated depreciation/ amortisation on disposals		1,853	5,284	–	7,137	35	7,172
Carrying amount at 31 December 2012		**118,020**	**38,526**	**36,010**	**192,556**	**18,817**	**211,373**
Cost or valuation at 31 December 2012		138,744	97,732	36,010	272,486	27,003	299,489
Accumulated depreciation/amortisation including accumulated impairment loss		(20,724)	(59,206)	–	(79,930)	(8,186)	(88,116)
Carrying amount at 31 December 2012		**118,020**	**38,526**	**36,010**	**192,556**	**18,817**	**211,373**
Additions		3,458	18,136	3,199	24,793	8,729	33,522
Transfers		1,383	201	(1,584)	–	–	–
Transfers from (to) Investment Property, net	15	244	–	(345)	(101)	–	(101)
Disposals		(1,146)	(2,577)	(1,665)	(5,388)	(51)	(5,439)
Impairment charge to profit and loss		–	(219)	4	(215)	–	(215)
Depreciation/amortisation charge		(3,607)	(11,390)	–	(14,997)	(4,038)	(19,035)
Elimination of accumulated depreciation/ amortisation on disposals		653	2,367	–	3,020	34	3,054
Carrying amount at 31 December 2013		**119,005**	**45,044**	**35,619**	**199,668**	**23,491**	**223,159**
Cost or valuation at 31 December 2013		142,683	113,273	35,619	291,575	35,681	327,256
Accumulated depreciation/amortisation including accumulated impairment loss		(23,678)	(68,229)	–	(91,907)	(12,190)	(104,097)
Carrying amount at 31 December 2013		**119,005**	**45,044**	**35,619**	**199,668**	**23,491**	**223,159**
Additions		800	26,684	1,383	28,867	19,884	48,751
Transfers		1,396	161	(1,557)	–	–	–
Transfers from (to) Investment Property, net	15	(646)	–	–	(646)	–	(646)
Disposals		(1,509)	(9,355)	(178)	(11,042)	(334)	(11,376)
Impairment charge to profit and loss		–	(220)	–	(220)	–	(220)
Depreciation/amortisation charge		(3,214)	(14,267)	–	(17,481)	(5,493)	(22,974)
Elimination of accumulated depreciation/ amortisation on disposals		270	9,276	–	9,546	208	9,754
Carrying amount at 31 December 2014		**116,102**	**57,323**	**35,267**	**208,692**	**37,756**	**246,448**
Cost or valuation at 31 December 2014		142,724	130,543	35,267	308,534	55,231	363,765
Accumulated depreciation/amortisation including accumulated impairment loss		(26,622)	(73,220)	–	(99,842)	(17,475)	(117,317)
Carrying amount at 31 December 2014		**116,102**	**57,323**	**35,267**	**208,692**	**37,756**	**246,448**

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14 Premises, Equipment and Intangible Assets Continued

Depreciation and amortisation charge presented on the face of the statement of profit or loss and other comprehensive income include depreciation and amortisation charge of premises and equipment, investment properties and intangible assets.

Construction in progress consists of construction and refurbishment of branch premises and a new headquarter of the Bank. Upon completion, assets are transferred to premises.

The Group revalues premises every three years, unless based on indicators in real estate market it becomes evident that the changes in fair values of premises might be significant, which would trigger more frequent revaluations. Premises were revalued to market value on 6 July 2012. The valuation was carried out by an independent firm of valuers which holds a recognised and relevant professional qualification and who have recent experience in valuation of assets of similar location and category.

The basis used for the appraisal was sales comparison method. As part of sales comparison method, at least three market comparatives were identified. As comparatives were somewhat different from the appraised properties, the quoted prices of the comparatives were further adjusted based on the differences in their location, condition, size, accessibility, age and expected discounts to be achieved through negotiations with the vendors. Comparative prices per square meter so determined were then multiplied by the area of the valued property to arrive at the appraised value of the premises.

In thousands of GEL (except for range of inputs)	Fair value as of 6 July 2012 (valuation date)	Carrying value at 31 December 2013	Carrying value at 31 December 2014	Valuation technique	Other key information	Unobservable inputs	Range of unobservable inputs (weighted average)
Office buildings	54,757	56,502	56,468	Sales comparison approach	Land	Price per square metre	382 – 3,784 (577)
					Buildings		244 – 2,926 (704)
Branches and service centres	81,134	82,437	75,878	Sales comparison approach	Land	Price per square metre	3 – 2,468 (345)
					Buildings		325 – 9,864 (2,292)

At 31 December 2014 the carrying amount of premises would have been GEL 86,039 thousand (2013: GEL 88,942 thousand; 2012: GEL 87,957 thousand) had the assets been carried at cost less depreciation and impairment losses. At 31 December 2014 the carrying amount of construction in progress would have been GEL 20,000 thousand (2013: GEL 20,345 thousand; 2012: GEL 20,736 thousand) had the assets been carried at cost less impairment losses.

15 Investment Properties

In thousands of GEL	Note	2014	2013	2012
Gross book value at 1 January		84,879	34,973	27,621
Accumulated depreciation at 1 January		(1,496)	(668)	(539)
Carrying amount at 1 January		**83,383**	**34,305**	**27,082**
Transfer from property, plant and equipment	14	646	345	2,418
Transfer from inventories of repossessed collateral		2,059	23,648	19,230
Addition from foreclosure		772	38,638	–
Disposals at cost		(9,657)	(12,481)	(14,296)
Elimination of depreciation on disposal		466	130	324
Transfer to property, plant and equipment	14	–	(244)	–
Depreciation charge		(1,453)	(958)	(453)
Gross book value at 1 January		78,699	84,879	34,973
Accumulated depreciation at 1 January		(2,483)	(1,496)	(668)
Carrying amount at 31 December		**76,216**	**83,383**	**34,305**

At 31 December 2014, investment properties comprised of 9 lots (2013: 12 lots; 2012:10 lots) of land and 57 buildings (2013: 58 buildings; 2012: 22 buildings) located in Tbilisi and other regions of Georgia with the fair value amounting to GEL 79,056 thousand (2013: GEL 86,480 thousand; 2012: GEL 34,928 thousand). For details behind valuation refer to Note 3.

15 Investment Properties Continued

Where the Group is the lessor, the future minimum lease payments receivable under non-cancellable operating leases, are as follows:

In thousands of GEL	2014	2013	2012
Not later than 1 year	107	163	68
Later than 1 year and not later than 5 years	1,008	1,736	1,657
Total operating lease payments receivable	1,115	1,899	1,725

16 Goodwill

Movements in goodwill arising on the acquisition of subsidiaries are:

In thousands of GEL	2014	2013	2012
Carrying amount at 1 January	2,726	2,726	2,726
Addition from acquisition of subsidiary	–	–	–
Transfer on de-classification of non-current assets previously held for sale	–	–	–
Carrying amount at 31 December	2,726	2,726	2,726

Goodwill Impairment Test

Goodwill is allocated to cash-generating units (CGUs, which represent the lowest level within the Group at which the goodwill is monitored by Management and which are not larger than a segment) as follows:

In thousands of GEL	2014	2013	2012
LLC TBC Kredit	1,262	1,262	1,262
JSC Bank Constanta	769	769	769
JSC United Financial Corporation	695	695	695
Total carrying amount of goodwill	2,726	2,726	2,726

The recoverable amount of each CGU was determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by Management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below.

Assumptions used for value-in-use calculations to which the recoverable amount is most sensitive were:

	2014	2013	2012
JSC Bank Constanta			
Growth rate beyond five years of Free Cash Flow to equity	6.00% p.a.	5.00% p.a.	5.00% p.a.
Pre-tax discount rate	18.82% p.a.	24.85% p.a.	24.11% p.a.
JSC United Financial Corporation			
Growth rate beyond five years of Free Cash Flow to equity	6.00% p.a.	5.00% p.a.	5.00% p.a.
Pre-tax discount rate	22.36% p.a.	22.08% p.a.	21.50% p.a.
LLC TBC Kredit			
Growth rate beyond five years of Free Cash Flow to equity	4.00% p.a.	3.20% p.a.	5.00% p.a.
Pre-tax discount rate	17.05% p.a.	23.00% p.a.	22.41% p.a.

Management determined budgeted gross margin based on past performance and its market expectations. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates reflect specific risks relating to the relevant CGUs.

If the revised estimated pre-tax discount rate applied to the discounted cash flows of JSC Bank Constanta had been 10 percentage points higher than Management's estimates, the Group would not need to reduce the carrying value of either goodwill or carrying value of net assets of the CGU (2013: GEL 769 thousand and 16,402 thousand; 2012: GEL 769 thousand and 16,076 thousand). Recoverable amount of JSC Constanta Bank CGU exceeds its carrying amount by GEL 71,384 thousand (2013: GEL 20,467 thousand; 2012: GEL 13,370 thousand). The CGU's carrying amount would equal its value in use at a discount rate of 29.36% p.a. (2013: 29.01% p.a.; 2012: 27.28% p.a.).

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16 Goodwill Continued

If the revised estimated pre-tax discount rate applied to the discounted cash flows of JSC United Financial Corporation had been 10 percentage points higher than Management's estimates, the Group would need to reduce the carrying value of goodwill by GEL 695 thousand and carrying value of net assets of the CGU by GEL 2,915 thousand (2013: GEL 695 thousand and GEL 101 thousand; 2012: nil). Recoverable amount of JSC United Financial Corporation CGU exceeds its carrying amount by GEL 801 thousand (2013: GEL 982 thousand; 2012: GEL 3,636 thousand). The CGUs' carrying amount would equal its value in use at a discount rate of 22.45% p.a. (2013: 23.02% p.a.; 2012: 40.01% p.a.)

If the revised estimated pre-tax discount rate applied to the discounted cash flows of LLC TBC Kredit had been 10 percentage points higher than Management's estimates, the Group would not need to reduce the carrying value of goodwill (2013:nil; 2012: nil). Recoverable amount of LLC TBC Kredit CGU exceeds its carrying amount by GEL 57,348 thousand (2013: GEL 16,829 thousand; 2012: GEL 13,972 thousand). The CGUs' carrying amount would equal its value in use at a discount rate 47.6% of p.a. (2013: 38.26% p.a; 2012: 37.86% p.a.).

17 Due to Credit Institutions

In thousands of GEL	2014	2013	2012
Due to other banks			
Correspondent accounts and overnight placements	**37,247**	4,894	6,569
Deposits from banks	**47,802**	42,358	53,700
Short-term loans from banks	**934**	–	15,935
Total due to other banks	**85,983**	**47,252**	**76,204**
Other borrowed funds			
Borrowings from foreign banks and financial institutions	**452,469**	417,504	479,854
Borrowings from local banks and financial institutions	**204,475**	92,987	63,599
Borrowings from Ministry of Finance	**6,358**	8,063	7,466
Total other borrowed funds	**663,302**	**518,554**	**550,919**
Total amounts due to credit institutions	**749,285**	**565,806**	**627,123**

18 Customer Accounts

In thousands of GEL	2014	2013	2012
State and public organisations			
- Current/settlement accounts	**130,008**	134,518	72,638
- Term deposits	**47,084**	72,463	225,926
Other legal entities			
- Current/settlement accounts	**1,042,559**	935,083	635,181
- Term deposits	**125,605**	134,143	155,112
Individuals			
- Current/demand accounts	**684,521**	621,211	386,737
- Term deposits	**1,292,651**	989,465	1,011,350
Total customer accounts	**3,322,428**	**2,886,883**	**2,486,944**

State and public organisations include government owned profit orientated businesses.

18 Customer Accounts Continued

Economic sector concentrations within customer accounts are as follows:

In thousands of GEL	2014 Amount	2014 %	2013 Amount	2013 %	2012 Amount	2012 %
Individual	1,977,172	60%	1,610,676	56%	1,398,087	56%
Trade and Service	435,414	13%	344,803	12%	211,729	8%
Construction	136,429	4%	131,427	5%	116,392	5%
Transportation	101,939	3%	129,096	4%	197,115	8%
Consumer Goods and Automobile Trading	86,729	3%	72,739	2%	50,286	2%
Oil and Gas	75,562	2%	147,005	5%	142,173	6%
Real Estate	72,843	2%	57,798	2%	45,116	2%
Food Industry	62,149	2%	97,421	3%	53,745	2%
Communication	57,677	2%	28,909	1%	19,305	1%
Energy	48,094	1%	57,179	2%	92,121	4%
Manufacturing	18,869	1%	21,013	1%	15,507	1%
Agriculture	17,755	1%	23,772	1%	14,198	0%
Mining	7,541	0%	21,746	1%	6,240	0%
Other	224,255	6%	143,299	5%	124,930	5%
Total customer accounts	**3,322,428**	**100%**	**2,886,883**	**100%**	**2,486,944**	**100%**

At 31 December 2014 the Group had 125 customers (2013: 97 customers; 2012: 78 customers) with balances above GEL 3,000 thousand. The aggregate balance of these customers was GEL 1,111,385 thousand (2013: GEL 915,407 thousand; 2012: GEL 758,428 thousand) or 33% of total customer accounts (2013: 32%; 2012: 30%).

At 31 December 2014 included in customer accounts are deposits of GEL 636 thousand and GEL 71,902 thousand (2013: GEL 9,652 thousand and GEL 38,973 thousand; 2012: GEL 3,572 thousand and GEL 33,135 thousand) held as collateral for irrevocable commitments under letters of credit and guarantees issued, respectively. Refer to Note 36.

Refer to Note 40 for the disclosure of the fair value of each class of customer accounts. Interest rate analysis of customer accounts is disclosed in Note 34. Information on related party balances is disclosed in Note 42.

19 Debt Securities in Issue

In thousands of GEL	Currency	Carrying amount in GEL as at 31 December 2014	Maturity Date	Coupon rate	Effective interest rate
Bonds issued on Azerbaijani market	AZN	7,236	16-Apr-16	9.0%	9.7%
Bonds issued on Georgian market	USD	9,469	21-Jul-16	9.0%	9.7%
Bonds issued on Georgian market	USD	3,718	3-Sep-17	8.4%	9.2%
Total debt securities in issue		**20,423**			

In thousands of GEL	Currency	Carrying amount in GEL as at 31 December 2014	Maturity Date	Coupon rate	Effective interest rate
Bonds issued on Azerbaijani market	AZN	4,474	1-Jan-14	7.0%	8.4%
Total debt securities in issue		**4,474**			

The group did not have any debt securities in issue as at 31 December 2012.

Refer to Note 40 for the disclosure of the fair value of debt securities in issue. Interest rate analysis of debt securities in issue are disclosed in Note 34.

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20 Provisions for Performance Guarantees, Credit Related Commitments and Liabilities and Charges

Movements in provisions for performance guarantees, credit related commitment and liabilities and charges are as follows:

In thousands of GEL	Performance guarantees	Credit related commitments	Other	Total
Carrying amount at 1 January 2012	**5,426**	**1,708**	**1,300**	**8,434**
Additions less releases recorded in profit or loss	2,471	(866)	1,700	3,305
Utilisation of provision	(5,565)	–	–	(5,565)
Carrying amount at 31 December 2012	**2,332**	**842**	**3,000**	**6,174**
Additions less releases recorded in profit or loss	2,374	4,085	1,315	7,774
Utilisation of provision	(553)	–	(1,015)	(1,568)
Carrying amount at 31 December 2013	**4,153**	**4,927**	**3,300**	**12,380**
Additions less releases recorded in profit or loss	759	(1,661)	5,500	4,598
Utilisation of provision	–	–	(5,080)	(5,080)
Carrying amount at 31 December 2014	**4,912**	**3,266**	**3,720**	**11,898**

Credit related commitments and performance guarantees: Provision was created against losses incurred on financial and performance guarantees and commitments to extend credit to borrowers whose financial conditions deteriorated.

Provisions for liabilities, charges, performance guarantees and credit related commitments are primarily expected to be utilised within twelve months after the year-end.

21 Other Financial Liabilities

Other financial liabilities comprise the following:

In thousands of GEL	Note	2014	2013	2012
Trade payables		9,835	8,129	5,688
Debit or credit card payables		8,710	2,488	1,166
Security deposits for finance lease		6,915	6,098	3,388
Derivative financial liabilities	39	5,639	4,405	7,139
Other accrued liabilities		10,247	3,730	2,081
Total other financial liabilities		**41,346**	**24,850**	**19,462**

Refer to Note 40 for disclosure of the fair value of other financial liabilities.

22 Other Liabilities

Other liabilities comprise the following:

In thousands of GEL	2014	2013	2012
Accrued employee benefit costs	21,502	17,740	13,412
Taxes payable other than on income	10,232	9,705	1,337
Advances received	977	1,297	534
Other	2,264	2,563	5,461
Total other liabilities	**34,975**	**31,305**	**20,744**

All of the above liabilities are expected to be settled within twelve months after the year-end.

23 Subordinated Debt

At 31 December 2014, subordinated debt comprised:

In thousands of GEL	Grant Date	Maturity Date	Currency	Outstanding amount in original currency	Outstanding amount in GEL
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.	19-Dec-13	15-Apr-23	USD	35,299	65,782
International Financial Corporation	23-Apr-09	12-Nov-18	USD	18,655	34,766
European Bank for Reconstruction and Development	23-Apr-09	12-Nov-18	USD	18,676	34,804
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.	23-Apr-09	12-Nov-18	USD	7,067	13,169
Deutsche Investitions und Entwicklungsgesellschaft MBH	19-Feb-08	15-Jul-18	USD	10,410	19,400
Deutsche Investitions und Entwicklungsgesellschaft MBH	26-Jun-13	15-Jun-20	USD	7,453	13,890
Kreditanstalt für Wiederaufbau Bankengruppe	10-Jun-14	8-May-21	GEL	6,204	6,204
Total subordinated debt					**188,015**

At 31 December 2013, subordinated debt comprised:

In thousands of GEL	Grant Date	Maturity Date	Outstanding amount in original currency USD	Outstanding amount in GEL
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.	19-Dec-13	15-Apr-23	34,905	60,605
International Financial Corporation	23-Apr-09	12-Nov-18	18,558	32,222
European Bank for Reconstruction and Development	23-Apr-09	12-Nov-18	18,585	32,269
Deutsche Investitions und Entwicklungsgesellschaft MBH	19-Feb-08	15-Jul-18	10,394	18,048
Deutsche Investitions und Entwicklungsgesellschaft MBH	26-Jun-13	15-Jun-20	7,441	12,920
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.	23-Apr-09	12-Nov-18	7,032	12,210
Total subordinated debt			**96,915**	**168,274**

At 31 December 2012, subordinated debt comprised:

In thousands of GEL	Grant Date	Maturity Date	Outstanding amount in original currency USD	Outstanding amount in GEL
International Financial Corporation	23-Apr-09	12-Nov-18	18,481	30,617
European Bank for Reconstruction and Development	23-Apr-09	12-Nov-18	18,413	30,505
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.	13-Dec-12	15-Apr-22	15,210	25,198
Deutsche Investitions und Entwicklungsgesellschaft MBH	19-Feb-08	15-Jul-18	10,353	17,152
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V.	23-Apr-09	12-Nov-18	7,007	11,608
Total subordinated debt			**69,464**	**115,080**

The debt ranks after all other creditors in case of liquidation.

Refer to Note 40 for the disclosure of the fair value of subordinated debt. Information on related party balances is disclosed in Note 42.

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24 Share Capital

In thousands of GEL except for number of shares	Number of vested shares	Share capital	Share premium	Total
At 1 January 2012	**151,710**	**15,171**	**203,308**	**218,479**
Shares issued	8,145	815	23612	24,427
Increase in share capital arising from share based payment	1,564	157	4,581	4,738
At 31 December 2012	**161,419**	**16,143**	**231,501**	**247,644**
Shares issued	2,411	240	7,097	7,337
Increase in share capital arising from share based payment	1,157	116	4,026	4,142
At 31 December 2013	**164,987**	**16,499**	**242,624**	**259,123**
Share split	41,081,763	–	–	–
Shares issued	7,692,308	3,077	172,493	175,570
Transaction costs recognized directly in equity	–	–	(9,459)	(9,459)
At 31 December 2014	**48,939,058**	**19,576**	**405,658**	**425,234**

On 4 March 2014, Shareholders of the Bank approved the spilt of the ordinary shares 250-for-1 and authorised for issue additional 10,445,387 shares. Following this decision, the total authorised number of ordinary shares is 53,090,637 shares (31 December 2013: 170,581 shares), with a nominal value of GEL 0.4 per share after the split (31 December 2013: GEL 100 per share). All issued ordinary shares are fully paid.

In accordance with Georgian legislation, the number of issued ordinary shares and relevant amounts of share capital and share premium differ from presentation above due to accounting for share based payment transactions described in note 25.

In thousands of GEL except for number of shares	Number of outstanding shares	Share capital	Share premium	Total
At 1 January 2012	**151,710**	**15,171**	**203,308**	**218,479**
Shares issued	8,145	815	23612	**24,427**
Increase in share capital arising from share based payment	1,564	157	4,581	**4,738**
At 31 December 2012	**161,419**	**16,143**	**231,501**	**247,644**
Shares issued	2,411	240	7,097	**7,337**
Increase in share capital arising from share based payment	1,157	116	4,026	**4,142**
At 31 December 2013	**164,987**	**16,499**	**242,624**	**259,123**
Registering shares in the name of employees under share based payment arrangement	1,229	123	4,156	**4,279**
Share split	41,387,784	–	–	**–**
Shares issued	7,692,308	3,077	172,493	**175,570**
Transaction costs recognized directly in equity	–	–	(9,459)	**(9,459)**
At 31 December 2014	**49,246,308**	**19,699**	**409,814**	**429,513**

All ordinary shares rank equally except for 307,250 unvested shares that were registered in the name of the management under share based payment arrangement and which do not have voting rights before service conditions are met (see Note 25). These unvested shares are still included in number of outstanding shares per NBG accounting rules. All other shares carry one vote.

In June 2014, 19,684,322 shares of the Bank were sold in the form of Global Depositary Receipts ("GDRs") on London Stock Exchange (the "LSE") pursuant to an initial public offering to institutional investors. 7,692,308 shares in the form of GDRs were sold by the Bank while the balance was sold by the selling shareholders. Bank of New York ("BNY") acts as a depositary of these shares. Each GDR represents 1 ordinary share of the Bank.

At the reporting date the Bank has 1,037,500 authorised shares reserved for issuance under share based payment arrangement (31 December 2013: 1,037,500 shares). For description of share based payment scheme refer to Note 25. Per management's estimate, the number of shares that the Bank will need to issue under the share based payment arrangement approximates 803,336 (31 December 2013: 699,250).

24 Share Capital Continued

Transaction costs, that is, incremental costs, are costs directly attributable to the equity transaction that otherwise would have been avoided had the equity instruments not been issued. Transaction costs of an equity transaction are accounted for as a deduction from equity, net of any related income tax benefit.

Included in transaction costs are fees paid to investment bankers, lawyers, underwriters and other professional advisers involved in the initial public offering.

25 Share Based Payments

May 2011 arrangement:

In May 2011, the Supervisory Board of the Bank approved a senior management bonus scheme for the years 2010 – 2012 and granted 3,300 new shares to the members of senior and middle management of the Group. According to the scheme, each year, subject to predefined performance conditions, certain number of the shares is awarded to the participants. The performance conditions are divided into (i) team goals and (ii) individual performance indicators. The total number of the shares to be awarded depends on meeting team goals and the book value per share according to the audited IFRS consolidated financial statements of the Group for the year preceding the date of the award. The team goals primarily relate to achieving growth, profitability and portfolio quality metrics set by the Supervisory Board as well as compliance with certain regulatory ratios and covenants set by the lending international financial institutions. Individual performance indicators are defined separately for each participant and are used to calculate the number of shares that should be awarded to them out of the total bonus pool. The awarded shares were subject to continuous employment condition until 1 January 2014 when full title on the awarded shares was transferred to the scheme participants. Before this date, the shares were eligible to dividends but did not have voting rights and could not be sold or transferred to third parties. The Group considers 3 May 2011 as the grant date. The fair value of the shares as at the grant date was estimated at GEL 2,837 per share. The valuation was carried out by an external valuator. All staff costs related to this Senior Management Bonus scheme have been recognised during the vesting period. The last outstanding shares out of the 3,300 share grant were issued in April 2013 and the share based payment reserve was debited by GEL 4,142 thousand.

June 2013 arrangement:

In June 2013, Supervisory Board of the Bank approved a new management compensation scheme for the years 2013 – 2015 and authorised 4,150 new shares as a maximum estimated number of new shares to be issued in accordance with the scheme. Authorized numbers of new shares have increased to 1,037,500 new shares in order to reflect the share split 250-for-1 approved by the Shareholders on 4 March 2014. According to the scheme, each year, subject to predefined performance conditions, certain number of the shares will be awarded to the top management and some of the middle managers of the Group. The performance conditions are divided into (i) team goals and (ii) individual performance indicators. The total number of the shares to be awarded depends on meeting the team goals and the book value per share according to the audited IFRS consolidated financial statements of the Group for the year preceding the date of the award. The team goals primarily relate to achieving growth, profitability and portfolio quality metrics set by the Supervisory Board as well as compliance with certain regulatory requirements. The total number of shares in the bonus pool depends on achievement of team goals. Individual performance indicators are defined separately for each participant and are used to calculate the number of shares to be awarded to them out of the total bonus pool. After awards, these shares carry service conditions and before those conditions are met the shares are eligible to dividends but do not have voting rights and cannot be sold or transferred to third parties. Service conditions assume continuous employment until the gradual transfer of the full title to the scheme participants is complete. Shares of each of 2013, 2014 and 2015 tranche vest gradually on the second, third and fourth year following the performance appraisal. Eighty percent of the shares vest in the fourth year after the award. Under this compensation system the total vesting period extends to June 2019.

The shareholders and Supervisory Board have granted put options on the shares to be awarded under the new management compensation scheme. In addition, the shareholders and the Supervisory Board have granted put options on all bonus shares awarded under the previous share based payment arrangements. All of the put options became null and void upon the listing of the Bank's shares on LSE in June 2014. At no point of the operation of the share based payment scheme did the management expect the put options to be exercised. Consequently, the scheme was accounted for as equity-settled scheme and no obligation was recognised for the put options. The Group considers 20 June 2013 as the grant date. Based on management's estimate of expected achievement of performance and service conditions 732,000 shares have been granted that will be gradually awarded to the members of the scheme as described above. The fair value of the share at the grant date, as adjusted for the effect of 250-for-1 share split, is evaluated at GEL 13,93 per share and the valuation was carried out by an external valuator. The valuation was performed by applying the income and market approaches. The market approach involved estimating market capitalization to book value of equity multiple and deal price to book value of equity multiple for comparable banks. When selecting comparable banks, the appraiser chose banks that operated in the Black Sea region and Central and Eastern Europe and had similar portfolio mix and growth priorities as TBC Bank. Income approach involved discounting free cash flows to equity estimated over 10-year horizon.

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25 Share Based Payments Continued

When developing the projections, the following major assumptions were made:

- Over 2013-2023 period, the compound annual growth rate was assumed at 15.2% for loans and at 15.1% for customer accounts.
- The spread on the bank's customer business was assumed to gradually decline from estimated 10.2% in 2013 till it would stabilize at 5.8% in 2021.
- Over 2013-2023 period, non-interest income was forecast to average 1.8% of customer volume (i.e. gross loans and deposits).
- Year-on-year growth in various components of employee compensation was assumed at 37.6%-56.0% in 2014, 2.4%-9.8% in 2015 and was then assumed to gradually decline to 2.1%-3.6% in 2023. Year-on-year growth in administrative expenses was assumed at 38.3% in 2014, 10.4% in 2015 and was then assumed to gradually decline to 3.3% in 2023.
- The Bank's terminal value was estimated using Gordon growth model, applying US long-term inflation forecast (2.1%) as the Bank's terminal cash flows growth rate.
- Bank's cost of equity was estimated at 15.10%.

The final valuation was based on income approach, with market approach serving as a reasonableness check on the result obtained by the income approach. The value of Bank's equity so calculated was then divided by the number of ordinary shares issued as of valuation date and further reduced with the discount for lack of control.

The Bank also pays personal income tax on behalf of equity settled scheme beneficiaries which is accounted as cash settled part. Tabular information on both of the schemes is given below:

In GEL except for number of shares	31 December 2014	31 December 2013 (not adjusted for the share split)	31 December 2012 (not adjusted for the share split)
Number of unvested shares at the beginning of the period	**2,797**	**1,157**	**2,721**
Number of shares granted		2,797	–
Increase in the number of unvested shares due to 250-for-1 split	**696,453**	–	–
Change in estimate of number of shares expected to vest based on performance conditions	**104,086**	–	–
Number of shares vested	**–**	(1,157)	(1,564)
Number of unvested shares at the end of the period	**803,336**	**2,797**	**1,157**
Value at grant date per share as adjusted for 250-for-1 split (GEL) / Value at grant date per share (GEL)	**13.93**	3,482	2,837
Expense on equity-settled part (GEL thousand)	**2,592**	2,032	2,700
Expense on cash-settled part (GEL thousand)	**1,710**	2,055	676
Expense recognised as staff cost during the period (GEL thousand)	**4,302**	**4,087**	**3,376**

Liability in respect of the cash-settled part of the award amounted to GEL 1,710 thousand as of 31 December 2014 (2013: GEL 2,055 thousand; 2012: GEL 432 thousand).Staff costs related to equity settled part of the share based payment schemes are recognised in the income statement on a straight line basis over the vesting period of each relevant tranche and corresponding entry is credited to share based payment reserve in equity.

26 Earnings per Share

Basic earnings per share are calculated by dividing the profit or loss attributable to owners of the Bank by the weighted average number of ordinary shares in issue during the year.

In thousands of GEL except for number of shares	2014	2013	2012
Profit for the period attributable to the owners of the Bank (excluding the profit attributable to the shares encumbered under the share based payment scheme – refer to Note 25)	**156,469**	121,616	96,519
Weighted average number of ordinary shares in issue	**45,524,938**	40,978,000	38,292,250
Basic earnings per ordinary share attributable to the owners of the Bank (expressed in GEL per share)	**3.4**	**3.0**	**2.5**

26 Earnings per Share Continued

Diluted earnings per share are calculated by dividing the profit or loss attributable to owners of the Bank by the weighted average number of ordinary shares adjusted for the effects of all dilutive potential ordinary shares during the year:

In thousands of GEL except for number of shares	2014	2013	2012
Profit for the period attributable to the owners of the Bank (excluding the profit attributable to the shares encumbered under the share based payment scheme – refer to Note 25)	**157,071**	121,616	96,519
Weighted average number of ordinary shares in issue adjusted for the effects of all dilutive potential ordinary shares during the period	**45,968,817**	41,055,500	38,292,250
Diluted earnings per ordinary share attributable to the owners of the Bank (expressed in GEL per share)	**3.4**	3.0	2.5

Weighted average number of ordinary shares in issue as at 31 December 2013 and 2012 has been adjusted for the 250-for-1 share split that took place in March 2014.

27 Segment Analysis

The chief operating decision maker which is the Board of Directors reviews the Group's internal reporting in order to assess performance and allocate resources. In 2014, the Board has changed the way it analyses certain information in order to enhance the control and monitoring of the Group's performance. This has resulted in the creation of a new segment 'Corporate Center and Other Operations' and a change in the presentation of segment information. The operating segments are now determined as follows:

- Retail – all individual customers of the Group as well as customers that have been granted gold-pawn loans.
- Corporate – business customers which have annual revenue of GEL 8.0 million or more or have been granted a loan in an amount equivalent to USD 1.5 million or more. Some other significant legal entity customers may also be assigned the status of being a corporate customer, on a discretionary basis; for example, if they are regarded by the Group as having strong growth potential.
- SME – business customers that are not included either in the corporate or micro segments.
- Micro – all business customers of Bank Constanta, that have been granted loans by and/or have deposits with Bank Constanta, the amount of which in neither case exceeds USD 150 thousand.
- Corporate Center and Other Operations – comprise the Treasury, other support and back office functions, and non-banking subsidiaries of the Group.

The Board of Directors assesses the performance of the operating segments based on a measure of adjusted profit before income tax.

The reportable segments are the same as the operating segments.

The vast majority of the entity's revenues are attributable to Georgia. A geographic analysis of origination of the Group's assets and liabilities is given in note 34.

Segment information for the reportable segments of the Group for the years ended 31 December 2014, 2013 and 2012 is set out below:

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27 Segment Analysis Continued

In thousands of GEL	Retail	Corporate	SME	Micro	Corporate centre and other operations	Total
31 December 2014						
- Interest income	237,804	116,404	53,739	57,573	46,837	512,357
- interest expense	(80,808)	(21,845)	(7,196)	(192)	(63,668)	(173,709)
- Inter-segment interest income/(expense)	7,499	(42,246)	(3,640)	(18,468)	56,855	–
- Net interest income	**164,495**	**52,313**	**42,903**	**38,913**	**40,024**	**338,648**
- Fee and commission income	46,368	18,093	9,268	3,498	10,976	88,203
- Fee and commission expense	(26,230)	(1,312)	(906)	(911)	(164)	(29,523)
- Net Fee and commission income	**20,138**	**16,781**	**8,362**	**2,587**	**10,812**	**58,680**
- Gains less losses from trading in foreign currencies	9,932	12,456	13,286	1,820	2,236	39,730
- Foreign exchange translation losses less gains	–	–	–	–	2,359	2,359
- Net gain from derivative financial instruments	–	–	–	–	(683)	(683)
- Other operating income	–	–	–	–	19,600	19,600
- Other operating non-interest income	**9,932**	**12,456**	**13,286**	**1,820**	**23,512**	**61,006**
- Provision for loan impairment	(22,046)	(18,995)	(1,625)	(6,006)	–	(48,672)
- Provision for performance guarantees and credit related commitments	–	885	17	–	–	902
- Provision for impairment of investments in finance lease	–	–	–	–	(77)	(77)
- Provision for impairment of other financial assets	–	–	–	–	(1,236)	(1,236)
- Impairment of investment securities available for sale	–	–	–	–	(22)	(22)
- Profit before administrative and other expenses and income taxes	**172,519**	**63,440**	**62,943**	**37,314**	**73,013**	**409,229**
- Staff costs	(55,427)	(11,826)	(10,755)	(15,808)	(29,019)	(122,835)
- Depreciation and amortisation	(13,132)	(780)	(1,915)	(3,579)	(5,021)	(24,427)
- Provision for liabilities and charges	–	–	–	–	(5,500)	(5,500)
- Administrative and other operating expenses	(36,026)	(4,432)	(4,981)	(9,600)	(18,509)	(73,548)
- Operating expenses	**(104,585)**	**(17,038)**	**(17,651)**	**(28,987)**	**(58,049)**	**(226,310)**
- Profit before tax	**67,934**	**46,402**	**45,292**	**8,327**	**14,964**	**182,919**
- Income tax expense	(9,087)	(6,207)	(6,059)	(1,114)	(2,001)	(24,468)
- Profit for the year	**58,847**	**40,195**	**39,233**	**7,213**	**12,963**	**158,451**
Total gross loans and advances to customers reported	1,666,913	1,231,729	533,919	273,699	–	3,706,260
Total customer accounts reported	1,977,172	832,555	507,816	4,885	–	3,322,428
Total credit related commitments and performance guarantees	94	390,763	30,292	19	–	421,168

27 Segment Analysis Continued

In thousands of GEL	Retail	Corporate	SME	Micro	Corporate centre and other operations	Total
31 December 2013						
- Interest income	207,028	131,385	44,370	51,185	40,828	474,796
- interest expense	(96,144)	(35,721)	(7,622)	(426)	(52,233)	(192,146)
- Inter-segment interest income/(expense)	24,157	(50,675)	(3,679)	(15,045)	45,242	–
- Net interest income	**135,041**	**44,989**	**33,069**	**35,714**	**33,837**	**282,650**
- Fee and commission income	40,823	15,881	7,349	2,444	7,864	74,361
- Fee and commission expense	(17,627)	(4,688)	(1,089)	(620)	(277)	(24,301)
- Net Fee and commission income	**23,196**	**11,193**	**6,260**	**1,824**	**7,587**	**50,060**
- Gains less losses from trading in foreign currencies	8,614	12,522	9,244	1,513	6,001	37,894
- Foreign exchange translation losses less gains	–	–	–	–	(5,901)	(5,901)
- Net gain from derivative financial instruments	–	–	–	–	613	613
- Other operating income	–	–	–	–	16,136	16,136
- Other operating non-interest income	**8,614**	**12,522**	**9,244**	**1,513**	**16,849**	**48,742**
- Provision for loan impairment	(13,377)	(17,035)	(88)	(2,471)	–	(32,971)
- Provision for performance guarantees and credit related commitments	–	(6,124)	(335)	–	–	(6,459)
- Provision for impairment of investments in finance lease	–	–	–	–	(98)	(98)
- Provision for impairment of other financial assets	–	–	–	–	(2,236)	(2,236)
- Impairment of investment securities available for sale	–	–	–	–	(1,142)	(1,142)
- Profit before administrative and other expenses and income taxes	**153,474**	**45,545**	**48,150**	**36,580**	**54,797**	**338,546**
- Staff costs	(49,949)	(8,329)	(9,909)	(14,138)	(26,288)	(108,613)
- Depreciation and amortisation	(11,862)	(753)	(1,904)	(2,061)	(3,413)	(19,993)
- Provision for liabilities and charges	–	–	–	–	(1,315)	(1,315)
- Administrative and other operating expenses	(32,693)	(3,175)	(4,135)	(10,130)	(18,559)	(68,692)
- Operating expenses	**(94,504)**	**(12,257)**	**(15,948)**	**(26,329)**	**(49,575)**	**(198,613)**
- Profit before tax	**58,970**	**33,288**	**32,202**	**10,251**	**5,222**	**139,933**
- Income tax expense	(6,602)	(3,726)	(3,604)	(1,147)	(584)	(15,663)
- Profit for the year	**52,368**	**29,562**	**28,598**	**9,104**	**4,638**	**124,270**
Total gross loans and advances to customers reported	1,207,514	1,157,334	392,446	201,287	–	2,958,581
Total customer accounts reported	1,610,676	819,779	451,985	4,443	–	2,886,883
Total credit related commitments and performance guarantees	256	346,587	43,099	127	–	390,069

Starting from 2014, the chief operating decision maker is reviewing the more detailed segmental analysis in order to assess performance and allocate resources. Before that segment information was presented only for certain items of the profit and loss statements.

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27 Segment Analysis Continued

Segment information for the reportable segments as it was presented before 2014, is set out below for the year ended 31 December 2012:

In thousands of GEL	Retail	Corporate	SME	Micro	Total
31 December 2012					
External revenues:					
- Interest income on loans and advances to customers	189,942	148,720	38,486	37,101	**414,249**
- Fee and commission income	33,860	15,333	7,442	1,505	**58,140**
- Gains less losses from trading in foreign currencies	6,858	15,580	8,242	875	**31,555**
Revenue from external customers	**230,660**	**179,633**	**54,170**	**39,481**	**503,944**
External Expenses:					
- Interest expense on customer accounts	93,854	55,560	7,026	194	**156,634**
- Fee and commission expense	13,459	438	713	427	**15,037**
- Provision for loan impairment	16,298	1,190	1,198	4,468	**23,154**
- Provision for liabilities and charges	(1)	2,045	(438)	–	**1,606**
Expenses from external customers	**123,610**	**59,233**	**8,499**	**5,089**	**196,431**
Adjusted profit before non-segmental income, administrative and other expense and income tax	**107,050**	**120,400**	**45,671**	**34,392**	**307,513**
31 December 2012					
Total gross loans and advances to customers reported	954,463	1,142,087	294,217	145,931	**2,536,698**
Total customer accounts reported	1,398,087	800,346	285,219	3,292	**2,486,944**
Total credit related commitments and performance guarantees	253	336,765	24,804	–	**361,822**

A reconciliation of adjusted profit before non-segmental income, administrative and other expenses and income tax is provided as follows:

In thousands of GEL	31 December 2012
Adjusted profit before non-segmental income, administrative and other expense and income tax	**307,513**
Non-segmental interest income	42,296
Non-segmental interest expense	(61,261)
Non-segmental fee and commission income	6,092
Non-segmental fee and commission expense	(3,793)
Non-segmental losses less gains from trading in foreign currency	(6,315)
Non-segmental provision for liabilities and charges	(1,700)
Net losses from derivative financial instruments	(3,804)
Foreign exchange translation gains less losses	7,617
Impairment of impairment for investment securities available for sale	(10)
Provision for impairment of investments in finance lease	(42)
Provision for impairment of other financial assets	(4,132)
Other operating income	13,680
Staff costs	(92,289)
Depreciation and amortisation	(22,103)
Administrative and other operating expenses	(69,440)
Profit before tax	**112,309**

27 Segment Analysis Continued

Reportable segments' assets are reconciled to total assets as follows:

In thousands of GEL	31 December 2014	31 December 2013	31 December 2012
Total segment assets (gross loans and advances to customers)	3,706,260	2,958,581	2,536,698
Provision for loan impairment	(149,764)	(156,869)	(166,498)
Cash and cash equivalents	532,118	390,465	398,587
Mandatory cash balances with National Bank of Georgia	336,075	295,332	316,061
Due from other banks	33,704	1,708	29,542
Investment securities available for sale	466,510	500,651	407,733
Current income tax prepayment	251	6,202	10,135
Deferred income tax asset	383	–	–
Other financial assets	43,857	45,049	25,301
Investments in finance leases	50,907	35,613	26,377
Other assets	77,775	65,075	67,354
Premises and equipment	208,692	199,668	192,556
Intangible assets	37,756	23,491	18,817
Investment properties	76,216	83,383	34,305
Goodwill	2,726	2,726	2,726
Total assets per statement of financial position	**5,423,466**	**4,451,075**	**3,899,694**

Reportable segments' liabilities are reconciled to total liabilities as follows:

In thousands of GEL	31 December 2014	31 December 2013	31 December 2012
Total segment liabilities (customer accounts)	3,322,428	2,886,883	2,486,944
Due to Credit institutions	749,285	565,806	627,123
Debt securities in issue	20,423	4,474	–
Current income tax liability	12,433	–	–
Deferred income tax liability	23,187	27,814	20,143
Provisions for liabilities and charges	11,898	12,380	6,174
Other financial liabilities	41,346	24,850	19,462
Other liabilities	34,975	31,305	20,744
Subordinated debt	188,015	168,274	115,080
Total liabilities per statement of financial position	**4,403,990**	**3,721,786**	**3,295,670**

Reportable segments' interest income is reconciled to total interest income as follows:

In thousands of GEL	31 December 2014	31 December 2013	31 December 2012
Segments' interest income	465,520	433,968	414,249
Investment securities available for sale (Note 10)	30,361	30,442	27,211
Due from other banks	6,211	3,030	6,960
Investment securities held to maturity	–	–	2,373
Investments in leases	10,265	7,356	5,734
Other	–	–	18
Total interest income	**512,357**	**474,796**	**456,545**

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27 Segment Analysis Continued

Reportable segments' interest expense is reconciled to total interest expense as follows:

In thousands of GEL	31 December 2014	31 December 2013	31 December 2012
Segments' interest expense	110,041	139,913	156,634
Due to credit institutions	43,384	38,645	47,946
Subordinated debt	19,069	13,182	13,226
Other	1,215	406	89
Total interest expense	**173,709**	**192,146**	**217,895**

28 Other Reserves

		Revaluation reserve for			
In thousands of GEL	Note	Premises	Available for sale securities	Cumulative currency translation reserve	Total other reserves
At 1 January 2012		**28,269**	**2,520**	**2,373**	**33,162**
Revaluation of investments available for sale	10	–	682	–	682
Revaluation of premises	14	10,513	–	–	10,513
Transfer of revaluation surplus on premises to retained earnings		(527)	–	–	(527)
Currency translation		–	–	(217)	(217)
Income tax effects		(1,520)	(154)	–	(1,674)
At 31 December 2012		**36,735**	**3,048**	**2,156**	**41,939**
Revaluation of investments available for sale	10	–	7,923	–	7,923
Currency translation		–	–	1,233	1,233
Income tax effects		–	(255)	–	(255)
At 31 December 2013		**36,735**	**10,716**	**3,389**	**50,840**
Revaluation of investments available for sale	10	–	(1,849)	–	(1,849)
Currency translation		–	–	2,095	2,095
Income tax effects		305	(192)	–	113
Increase arising on revaluation of properties as a result of acquisition of non-controlling interest		89	–	–	89
Transfer of revaluation surplus to retained earnings due to sale		(2,033)	–	–	(2,033)
At 31 December 2014		**35,096**	**8,675**	**5,484**	**49,255**

Revaluation reserve for available for sale securities is transferred to profit or loss when realised through sale or impairment. Revaluation reserve for premises is transferred to retained earnings when realised through sale or other disposal.

29 Interest Income and Expense

In thousands of GEL	2014	2013	2012
Interest income			
Loans and advances to customers	465,520	433,968	414,249
Investment securities available for sale (Note 10)	30,361	30,442	27,211
Investments in leases	10,265	7,356	5,734
Due from other banks	6,211	3,030	6,960
Investment securities held to maturity	–	–	2,373
Other	–	–	18
Total interest income	**512,357**	**474,796**	**456,545**
Interest expense			
Customer accounts	110,041	139,913	156,634
Due to credit institutions	43,384	38,645	47,946
Subordinated debt	19,069	13,182	13,226
Other	1,215	406	89
Total interest expense	**173,709**	**192,146**	**217,895**
Net interest income	**338,648**	**282,650**	**238,650**

30 Fee and Commission Income and Expense

In thousands of GEL	2014	2013	2012
Fee and commission income			
Fee and commission income in respect of financial instruments not at fair value through profit or loss:			
- Card operations	35,247	33,012	27,782
- Settlement transactions	23,892	18,543	15,160
- Guarantees issued	9,140	6,271	9,530
- Issuance of letters of credit	6,889	6,769	2,762
- Cash transactions	6,507	5,040	4,092
- Foreign exchange operations	1,169	1,550	1,632
- Other	5,359	3,176	3,274
Total fee and commission income	**88,203**	**74,361**	**64,232**
Fee and commission expense			
Fee and commission expense in respect of financial instruments not at fair value through profit or loss:			
- Card operations	16,053	13,143	9,657
- Guarantees received	4,161	4,048	3,625
- Settlement transactions	2,594	2,157	1,501
- Cash transactions	2,592	1,544	1,084
- Foreign exchange operations	62	70	62
- Other	4,061	3,339	2,901
Total fee and commission expense	**29,523**	**24,301**	**18,830**
Net fee and commission income	**58,680**	**50,060**	**45,402**

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31 Other Operating Income

In thousands of GEL	2014	2013	2012
Revenues from operational leasing	6,997	2,980	3,292
Gain from sale of investment properties	5,795	5,835	2,734
Gain from sale of inventories of repossessed collateral	1,644	1,519	4,102
Administrative fee income from international financial institutions	982	1,268	1,163
Revenues from sale of cash-in terminals	852	760	–
Revenues from non-credit related fines	236	339	434
Gain on disposal of premises and equipment	126	37	–
Net gain on terminated finance lease contracts	–	–	108
Other	2,968	3,398	1,847
Total other operating income	**19,600**	**16,136**	**13,680**

Carrying value of inventories of repossessed collateral disposed of during year ended 31 December 2014 was GEL 13,721 thousand (2013: GEL 19,558 thousand; 2012: GEL 7,212 thousand).

32 Administrative and Other Operating Expenses

In thousands of GEL	2014	2013	2012
Advertising and marketing services	14,121	13,211	15,183
Professional services	11,969	6,247	10,054
Rent	11,943	10,809	10,295
Intangible asset enhancement	4,371	3,767	2,605
Taxes other than on income	3,900	3,043	3,363
Utility services	3,681	3,369	3,036
Communications and supply	3,455	3,103	3,199
Stationery and other office expenses	2,632	2,360	2,958
Insurance	1,899	1,496	1,440
Premises and equipment maintenance	1,893	2,484	1,904
Business trip expenses	1,610	1,230	1,104
Security services	1,578	1,597	1,522
Transportation and vehicle maintenance	1,216	1,215	1,687
Personnel training and recruitment	919	902	574
Charity	898	905	911
Loss on disposal of inventories	208	221	–
Write-down of current assets to fair value less costs to sell	190	6,178	1,317
Loss on disposal of premises and equipment	18	54	1,658
Loss on disposal of investment properties	–	76	–
Other	7,047	6,425	6,630
Total administrative and other operating expenses	**73,548**	**68,692**	**69,440**

33 Income Taxes

Income tax expense comprises the following:

In thousands of GEL	2014	2013	2012
Current tax charge	29,365	8,247	4,077
Deferred tax (credit)/charge	(4,897)	7,416	10,421
Income tax expense for the year	**24,468**	**15,663**	**14,498**

33 Income Taxes Continued

The income tax rate applicable to the majority of the Group's income is 15% (2013: 15%; 2012: 15%). The income tax rate applicable to the majority of subsidiaries income ranges from 15% to 20% (2013: 15% – 20%; 2012: 15% – 20%).

Reconciliation between the expected and the actual taxation charge is provided below.

In thousands of GEL	2014	2013	2012
Profit before tax	**182,919**	**139,933**	**112,309**
Theoretical tax charge at statutory rate (2014: 15%; 2013: 15%; 2012: 15%)	27,438	20,990	16,846
Tax effect of items which are not deductible or assessable for taxation purposes:			
- Income which is exempt from taxation	(4,678)	(4,865)	(4,756)
- Non-deductible expenses and other differences	1,708	1,758	2,408
- Recognition of previously unrecognized deferred tax assets	–	(2,220)	–
Income tax expense for the year	**24,468**	**15,663**	**14,498**

The Group has not recorded a deferred tax liability in respect of temporary differences of GEL 6,141 thousand (2013: GEL 3,653 thousand; 2012: GEL 1,524 thousand) associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences, and does not intend to reverse them in the foreseeable future.

Differences between IFRS and statutory taxation regulations in Georgia and Azerbaijan give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 15% (2013: 15%; 2012: 15%) for Georgia and 20% for Azerbaijan (2013: 20%; 2012: 20%).

In thousands of GEL	31 December 2013	(Charged)/ credited to profit or loss	(Charged)/ credited directly to other comprehensive income	31 December 2014
Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards				
Premises and equipment	(18,306)	(2,039)	305	(20,040)
Loan impairment provision	(5,666)	948	–	(4,718)
Fair valuation of investment securities available for sale	(557)	(475)	(192)	(1,224)
Other financial assets	191	4,292	–	4,483
Other assets	1,741	2,423	–	4,164
Investment in leases	(13)	42	–	29
Investment property	(7,012)	576	–	(6,436)
Due to credit institutions	464	(756)	–	(292)
Subordinated debt	(289)	30	–	(259)
Other financial liabilities	1,027	790	–	1,817
Other liabilities	301	(681)	–	(380)
Share based payment	305	(253)	–	52
Net deferred tax asset/(liability)	**(27,814)**	**4,897**	**113**	**(22,804)**
Recognised deferred tax asset	–	383	–	383
Recognised deferred tax liability	(27,814)	4,514	113	(23,187)
Net deferred tax asset/(liability)	**(27,814)**	**4,897**	**113**	**(22,804)**

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33 Income Taxes Continued

In thousands of GEL	31 December 2012	(Charged)/ credited to profit or loss	Charged directly to other comprehensive income	31 December 2013
Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards				
Premises and equipment	(16,961)	(1,345)	–	(18,306)
Loan impairment provision	(834)	(4,832)	–	(5,666)
Fair valuation of investment securities available for sale	(473)	171	(255)	(557)
Tax loss carry forwards	678	(678)	–	–
Other financial assets	1,320	(1,129)	–	191
Other assets	865	876	–	1,741
Investment in leases	(197)	184	–	(13)
Investment property	(2,576)	(4,436)	–	(7,012)
Due to credit institutions	(433)	897	–	464
Subordinated debt	(219)	(70)	–	(289)
Other Financial liabilities	–	1,027	–	1,027
Other Liabilities	(1,313)	1,614	–	301
Share based payment	–	305	–	305
Net deferred tax asset/(liability)	**(20,143)**	**(7,416)**	**(255)**	**(27,814)**

In thousands of GEL	1 January 2012	(Charged)/ credited to profit or loss	Charged directly to other comprehensive income	31 December 2012
Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards				
Premises and equipment	(13,790)	(1,651)	(1,520)	(16,961)
Loan impairment provision	9,752	(10,586)	–	(834)
Fair valuation of investment securities available for sale	(407)	88	(154)	(473)
Tax loss carry forwards	198	480	–	678
Other financial assets	–	1,320	–	1,320
Other assets	(276)	1,141	–	865
Investment in leases	3	(200)	–	(197)
Investment property	(2,382)	(194)	–	(2,576)
Due to credit institutions	(521)	88	–	(433)
Subordinated debt	(167)	(52)	–	(219)
Other liabilities	(458)	(855)	–	(1,313)
Net deferred tax asset/(liability)	**(8,048)**	**(10,421)**	**(1,674)**	**(20,143)**

In the context of the Group's current structure and Georgian tax legislation, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity and the same taxation authority.

34 Financial and Other Risk Management

The risk management function within the Group is carried out in respect of the following risks: credit, geographical, market which includes principally currency and interest rate risks, liquidity, operational strategic and reputational risks. The primary objectives of the risk management function are to (i) contribute to the development of the Group's business strategy by ensuring risk adjusted profitability and (ii) guarantee the Group's sustainable development through the implementation of efficient risk management systems.

34 Financial and Other Risk Management Continued

Group's risk management process encompasses all the activities that affect its risk profile and consists of the following core elements: (i) active board and senior management oversight; (ii) adequate policies and procedures aimed at effectively controlling risk exposures; (iii) adequate risk identification, measurement and management systems; and (iv) comprehensive internal controls. The monitoring and implementation of TBC Bank's risk management function is split among eight principal risk management bodies: the Supervisory Board, the Risk, Ethics and Compliance Committee, the Audit Committee, the Management Board, the Credit Committee, the Operational Risks Committee, the Assets and Liabilities Management Committee and the Problem Loans Committee.

TBC Bank's risk management policies are implemented through a number of its departments, including the Internal Audit, Financial Risk Management, Treasury, Credit Risk Management, Corporate, SME and Retail Credit Risk Management, Operational Risk Management, Legal and Compliance Departments, each of which reports to one of the principal risk management bodies referred to above.

TBC Bank also employs a Chief Risk Officer, who reports to the Management Board and who is responsible for supervising all risk management activities across TBC Bank's business except for financial risk management, which is supervised by the Chief Financial Officer. The Chief Risk Officer is also required to ensure that TBC Bank's risk exposure level is in accordance with the defined limits set forth in TBC Bank's Risk Appetite Statement and that its operations are adequate in light of TBC Bank's risk profile. The Chief Risk Officer and Chief Financial Officer have independent access to the Chairman of the Risk, Ethics, and Compliance Committee.

Credit risk. The Group is exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. The Group's exposure to credit risk arises as a result of its lending operations and other transactions with counterparties giving rise to financial assets.

The Group's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the consolidated statement of financial position as well as for financial and performance guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment. Refer to Note 36. The subcategories of credit risk are: counterparty credit risk (the risk default or non-fulfilment of contracts due to a deterioration in the counterparty's credit quality); concentration risk (the risk of portfolio quality deterioration due to large exposures to small number of borrowers or individual industries); currency-induced credit risks (risks arising from foreign currency-denominated loans in the portfolio); and residual risks (resulting from the use of credit risk-mitigation techniques).

For efficient management of credit risk the adequate policies, and procedures are in place. The credit policies establish framework for lending decisions reflecting the Bank's tolerance for credit risk.

The credit risks are managed at the transaction and portfolio level. At the transaction level credit risk management includes: credit applications review, credit application rating review, approval of credits and monitoring of individual borrowers' financial standing. As for the portfolio level – credit risk management includes: definition of the risk appetite, credit portfolio analysis, industry analysis, concentrations management, rating models development, expected losses estimation, undertaking stress tests for unexpected losses estimation and development of credit policies and instructions. Loan Approval Committees are responsible to review credit applications and approve credit products. Different Loan Approval Committees are in place for the approval of credit exposures to retail, corporate, SME and micro customers. The composition of a Loan Approval Committee depends on aggregated liabilities of the borrower and the borrower's risk profile. Credit risk managers (as members of corresponding Loan Approval Committees) ensure that the borrower and proposed credit exposure risks are thoroughly analysed. A loan to a "large borrower" (a borrower with exposure to more than 5% of TBC Bank's Basel capital) requires the review and approval of the Risk, Ethics and Compliance Committee.

The Group has established portfolio monitoring systems in order to manage its credit exposure effectively. Reports are generated on a daily, weekly, monthly and quarterly basis in order to monitor the dynamics of loan portfolio of the Bank's various business segments and ensure compliance with predefined risk appetite limits.

The Credit Risk Management Department analyses trends of the portfolio on a monthly basis, including total credit portfolio exposure, concentrations, maturities, volumes and performance of non-performing loans, write-offs and recoveries, and presents its findings to the Management Board. Furthermore, reports relating to the credit quality of the credit portfolio, compliance with risk appetite limits, TBC Bank's related and connected party exposures, results of stress tests are presented to the Supervisory Board and Risk Ethics and Compliance Committee on a quarterly basis. The Bank's Credit Risk Management Department reviews ageing analysis of outstanding loans and follows up past due balances. Management therefore considers it to be appropriate to provide ageing and other information about credit risk as disclosed in Note 9.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of counterparty failing to perform in accordance with the terms of the contract. The Group uses the same credit policies in making conditional obligations as it does for on-balance sheet financial instruments through established credit approvals, risk control limits and monitoring procedures.

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34 Financial and Other Risk Management Continued

Geographical risk concentrations. Assets, liabilities, credit related commitments and performance guarantees have generally been attributed to geographic regions based on the country in which the counterparty is located. Balances legally outstanding to/from off-shore companies which are closely related to Georgian counterparties are allocated to the caption "Georgia". Cash on hand and premises and equipment have been allocated based on the country in which they are physically held.

The geographical concentration of the Group's assets and liabilities at 31 December 2014 is set out below:

In thousands of GEL	Georgia	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	348,237	91,896	91,985	532,118
Due from other banks	615	3,910	29,179	33,704
Mandatory cash balances with National Bank of Georgia	336,075	–	–	336,075
Loans and advances to customers	3,397,855	71,971	86,670	3,556,496
Investment securities available for sale	460,370	6,140	–	466,510
Investments in leases	50,907	–	–	50,907
Other financial assets	43,802	55	–	43,857
Total financial assets	**4,637,861**	**173,972**	**207,834**	**5,019,667**
Non-financial assets	**401,744**	**22**	**2,033**	**403,799**
Total assets	**5,039,605**	**173,994**	**209,867**	**5,423,466**
Liabilities				
Due to credit institutions	279,445	411,605	58,235	749,285
Customer accounts	2,931,114	312,470	78,844	3,322,428
Debt securities in issue	3,718	–	16,705	20,423
Other financial liabilities	37,677	3,454	215	41,346
Subordinated debt	6,204	181,811	–	188,015
Total financial liabilities	**3,258,158**	**909,340**	**153,999**	**4,321,497**
Non-financial liabilities	**81,365**	**178**	**950**	**82,493**
Total liabilities	**3,339,523**	**909,518**	**154,949**	**4,403,990**
Net balance sheet position	**1,700,082**	**(735,524)**	**54,918**	**1,019,476**
Performance guarantees	**183,528**	**–**	**–**	**183,528**
Credit related commitments	**513,746**	**–**	**–**	**513,746**

34 Financial and Other Risk Management Continued

The geographical concentration of the Group's assets and liabilities at 31 December 2013 is set out below:

In thousands of GEL	Georgia	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	242,264	74,279	73,922	**390,465**
Due from other banks	–	1,630	78	**1,708**
Mandatory cash balances with National Bank of Georgia	295,332	–	–	**295,332**
Loans and advances to customers	2,639,915	91,492	70,305	**2,801,712**
Investment securities available for sale	495,793	4,858	–	**500,651**
Investments in leases	35,613	–	–	**35,613**
Other financial assets	44,990	59	–	**45,049**
Total financial assets	**3,753,907**	**172,318**	**144,305**	**4,070,530**
Non-financial assets	**379,248**	**28**	**1,269**	**380,545**
Total assets	**4,133,155**	**172,346**	**145,574**	**4,451,075**
Liabilities				
Due to credit institutions	115,519	403,179	47,108	**565,806**
Customer accounts	2,513,794	347,410	25,679	**2,886,883**
Debt securities in issue	–	–	4,474	**4,474**
Other financial liabilities	19,638	5,164	48	**24,850**
Subordinated debt	–	168,274	–	**168,274**
Total financial liabilities	**2,648,951**	**924,027**	**77,309**	**3,650,287**
Non-financial liabilities	**70,160**	**92**	**1,247**	**71,499**
Total liabilities	**2,719,111**	**924,119**	**78,556**	**3,721,786**
Net balance sheet position	**1,414,044**	**(751,773)**	**67,018**	**729,289**
Performance guarantees	**156,551**	**–**	**–**	**156,551**
Credit related commitments	**422,239**	**–**	**–**	**422,239**

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34 Financial and Other Risk Management Continued

The geographical concentration of the Group's assets and liabilities at 31 December 2012 is set out below:

In thousands of GEL	Georgia	OECD	Non-OECD	Total
Assets				
Cash and cash equivalents	216,913	160,598	21,076	**398,587**
Due from other banks	28,164	1,378	–	**29,542**
Mandatory cash balances with National Bank of Georgia	316,061	–	–	**316,061**
Loans and advances to customers	2,273,550	36,917	59,733	**2,370,200**
Investment securities available for sale	404,577	3,156	–	**407,733**
Investments in leases	26,377	–	–	**26,377**
Other financial assets	25,262	39	–	**25,301**
Total financial assets	**3,290,904**	**202,088**	**80,809**	**3,573,801**
Non-financial assets	**324,112**	**52**	**1,729**	**325,893**
Total assets	**3,615,016**	**202,140**	**82,538**	**3,899,694**
Liabilities				
Due to credit institutions	128,610	445,140	53,373	**627,123**
Customer accounts	2,245,785	239,433	1,726	**2,486,944**
Other financial liabilities	18,679	297	486	**19,462**
Subordinated debt	–	115,080	–	**115,080**
Total financial liabilities	**2,393,074**	**799,950**	**55,585**	**3,248,609**
Non-financial liabilities	**45,666**	**112**	**1,283**	**47,061**
Total liabilities	**2,438,740**	**800,062**	**56,868**	**3,295,670**
Net balance sheet position	**1,176,276**	**(597,922)**	**25,670**	**604,024**
Performance guarantees	**157,795**	**–**	**–**	**157,795**
Credit related commitments	**380,442**	**–**	**–**	**380,442**

Market risk. The Bank follows the Basel Committee's definition of market risk as the risk of losses in on- and off-balance-sheet positions arising from movements in market prices. This risk is principally made up of (a) risks pertaining to interest rate instruments and equities in the trading book and (b) foreign exchange rate risk (or currency risk) and commodities risk throughout the Bank. The Bank's strategy is not to be involved in trading book activity or investments in commodities. Accordingly, the Bank's exposure to market risk is primarily limited to foreign exchange rate risk in the structural book.

Currency risk. Foreign exchange rate risk arises from the potential change in foreign currency exchange rates, which can affect the value of a financial instrument. This risk stems from the open currency positions created due to mismatches in foreign currency assets and liabilities. The NBG requires the Bank to monitor both balance-sheet and total aggregate (including off-balance sheet) open currency positions and to maintain the later one within 20% of the Bank's regulatory capital. As at 31 December 2014, the Bank maintained an aggregate open currency position of 3.1% of regulatory capital (2013: 0.79%; 2012: negative 4.3%). The Asset/Liability Management Committee ("ALCO") has set limits on the level of exposure by currency as well as on aggregate exposure positions which are more conservative than those set by the NBG. The Bank's compliance with such limits is monitored daily by the heads of the Treasury and Financial Risk Management Departments.

The Bank has in place Market Risk Management Policy, market risk management procedure and relevant methodologies which are updated annually in order to further increase effectiveness of currency risk management.

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The table below summarises the Group's exposure to foreign currency exchange rate risk at the balance sheet date. Gross amount of currency swap deposits is included in Derivatives. Therefore Total financial assets and liabilities below are not traceable with either balance sheet or liquidity risk management tables, where net amount of gross currency swaps is presented:

	At 31 December 2014			
In thousands of GEL	Monetary financial assets	Monetary financial liabilities	Derivatives	**Net balance sheet position**
Georgian Lari	1,979,583	1,336,626	55,335	**698,292**
US Dollars	2,704,810	2,573,475	(193,200)	**(61,865)**
Euros	262,113	376,934	117,668	**2,847**
Other	72,543	34,414	18,313	**56,442**
Total	**5,019,049**	**4,321,449**	**(1,884)**	**695,716**

	At 31 December 2013				At 31 December 2012			
In thousands of GEL	Monetary financial assets	Monetary financial liabilities	Derivatives	**Net balance sheet position**	Monetary financial assets	Monetary financial liabilities	Derivatives	**Net balance sheet position**
Georgian Lari	1,438,492	994,150	(31,569)	**412,773**	1,088,821	809,165	20,139	**299,795**
US Dollars	2,374,574	2,333,144	(60,192)	**(18,762)**	2,153,303	2,133,821	(14,891)	**4,591**
Euros	217,267	294,734	76,450	**(1,017)**	277,692	272,759	(4,802)	**131**
Other	38,917	28,259	16,532	**27,190**	54,119	32,864	–	**21,255**
Total	**4,069,250**	**3,650,287**	**1,221**	**420,184**	**3,573,935**	**3,248,609**	**446**	**325,772**

To assess currency risk the Bank performs value-at-risk ("VAR") sensitivity analysis on a quarterly basis. The analysis calculates the effect on the income of the Group of possible worst movement of currency rates against Georgian Lari, with all other variables held constant. To identify maximum expected losses associated with currency fluctuations, 99% confidence level is defined based on monthly changes in exchange rates over the 3 years look-back period. During the years ended 31 December 2014, 2013 and 2012, sensitivity analysis did not reveal any significant potential effect on the Group's equity:

In thousands of GEL	**As at 31 December 2014**	As at 31 December 2013	As at 31 December 2012
Maximum loss (VAR, 99% confidence level)	**(2,572)**	(589)	(183)
Maximum loss (VAR,95% confidence level)	**(1,886)**	(413)	(130)

Interest rate risk. Interest rate risk arises from potential changes in market interest rates that can adversely affect the fair value or future cash flows of the financial instrument. This risk can arise from maturity mismatches of assets and liabilities, as well as from the re-pricing characteristics of such assets and liabilities.

The deposits and the largest part of loans offered by the Bank are at fixed interest rates, while a portion of the Bank's borrowings is based on a floating rate of interest. The Bank's floating rate borrowings are, to a certain extent, hedged by the NBG paying a floating rate on the minimum reserves that the Bank holds with the NBG. The Bank has also entered into interest rate swap agreements in order to mitigate interest rate risk, analyses of derivative financial instruments is given in Note 39. Furthermore, vast majority of the Bank's loans to customers contain a clause allowing it to adjust the interest rate on the loan in case of adverse interest rate movements, thereby limiting the Bank's exposure to interest rate risk. Management also believes that the Bank's interest rate margins provide a reasonable buffer in order to mitigate the effect of possible adverse interest rate movement.

The table below summarises the Group's exposure to interest rate risks. The table presents the aggregated amounts of the Group's financial assets and liabilities at amounts monitored by the management, categorised by the earlier of contractual interest re-pricing or maturity dates. Currency swaps are not netted when assessing the Group's exposure to interest rate risks. Therefore, total financial assets and liabilities below are not traceable with either balance sheet or other financial risk management tables.

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In thousands of GEL	Less than 1 year	More than 1 year	Total
31 December 2014			
Total financial assets	2,238,703	2,808,079	**5,046,782**
Total financial liabilities	2,763,543	1,584,484	**4,348,027**
Net interest sensitivity gap at 31 December 2014	**(524,840)**	**1,223,595**	**698,755**
31 December 2013			
Total financial assets	2,001,124	2,102,561	**4,103,685**
Total financial liabilities	2,364,190	1,317,960	**3,682,150**
Net interest sensitivity gap at 31 December 2013	**(363,066)**	**784,601**	**421,535**
31 December 2012			
Total financial assets	1,917,616	1,715,962	**3,633,578**
Total financial liabilities	2,256,548	1,051,705	**3,308,253**
Net interest sensitivity gap at 31 December 2012	**(338,932)**	**664,257**	**325,325**

At 31 December 2014, if interest rates at that date had been 100 basis points lower with all other variables held constant, profit for the year would have been GEL 2,600 thousand (2013: GEL 1,800 thousand; 2012 GEL 1,695 thousand;) higher, mainly as a result of lower interest expense on variable interest liabilities. Other comprehensive income would have been GEL 5,482 thousand (2013: GEL 5,093 thousand, 2012: GEL 4,951 thousand) higher, as a result of an increase in the fair value of fixed rate financial assets classified as available for sale and repurchase receivables.

If interest rates had been 100 basis points higher, with all other variables held constant, profit would have been GEL 2,600 thousand (2013: GEL 1,800 thousand 2012: GEL 1,695 thousand;) lower, mainly as a result of higher interest expense on variable interest liabilities. Other comprehensive income would have been GEL 5,278 thousand (2013: GEL 4,786 thousand, 2012: GEL 4,926 thousand) lower, as a result of decrease in the fair value of fixed rate financial assets classified as available for sale.

For the management of interest rate risk on a standalone basis, the Bank has introduced an advanced model developed with the assistance of Ernst & Young LLC. The interest rate risk analysis is performed by Financial Risk Management Department monthly.

The Bank calculates impact of changes in interest rates using both Net Interest Income and Economic Value sensitivity. Net Interest Income sensitivity measures the impact of a change of interest rates along the various maturities on the yield curve on the net interest revenue for the nearest year. Economic Value measures the impact of a change of interest rates along the various maturities on the yield curve on the present value of the Group's assets, liabilities and off-balance sheet instruments. When performing Net Interest Income and Economic Value sensitivity analysis, the Bank uses parallel shifts in interest rates as well as number of different scenarios.

In order to manage Interest Rate risk the Bank establishes appropriate limits. The Bank monitors compliance with the limits and prepares forecasts. ALCO decides on actions that are necessary for effective interest rate risk management and follows up on the implementation. Periodic reporting is done to Management Board and Supervisory Board Risk, Ethics and Compliance Committee.

Liquidity Risk. Liquidity risk is the risk that TBC either does not have sufficient financial resources available to meet all of its obligations and commitments as they fall due, or can access those resources only at a high cost. Liquidity risk is managed by the Financial Risk Management and Treasury Departments and is monitored by the ALCO.

The principal objectives of the TBC Bank's liquidity risk management policy are to: (i) ensure the availability of funds in order to meet claims arising from total liabilities and off-balance sheet commitments, both actual and contingent, at an economic price; (ii) recognise any structural mismatch existing within TBC Bank's statement of financial position and set monitoring ratios to manage funding in line with well-balanced growth; and (iii) monitor liquidity and funding on an ongoing basis to ensure that approved business targets are met without compromising the risk profile of the Bank.

Liquidity risk is categorised into two risk types: funding liquidity risk and market liquidity risk.

Funding liquidity risk is the risk that TBC will not be able to efficiently meet both expected and unexpected current and future cash flow and collateral needs without affecting either its daily operations or its financial condition. To manage funding liquidity risk TBC Bank uses Liquidity Coverage ratio and Net Stable Funding ratio set forth under Basel III, as well as minimum liquidity ratio defined by the NBG. In addition the Bank performs stress tests, what if and scenarios analysis.

34 Financial and Other Risk Management Continued

The Liquidity Coverage ratio is used to help manage short-term liquidity risks. The Bank's liquidity risk management framework is designed to comprehensively project cash flows arising from assets, liabilities and off-balance sheet items over certain time bands and ensure that liquidity coverage ratio limits are put in place. TBC Bank also stress tests the results of liquidity through large shock scenarios set by the NBG. TBC Bank calculates its internal liquidity coverage ratio and conducts stress tests on a weekly basis.

The Net Stable Funding ratio is used for long-term liquidity risk management to promote resilience over a longer time horizon by creating additional incentives for TBC to rely on more stable sources of funding on a continuing basis. TBC Bank also sets deposit concentration limits for large deposits and deposits of non-Georgian residents in its deposit portfolio.

Net Stable Funding ratio is calculated based on the IFRS consolidated financial statements. In addition, for internal purposes TBC Bank calculates NSFR ratio on the basis of standalone financial statements prepared in accordance with the NBG accounting rules.

Calculation of the NSFR as at 31 December 2014, 2013 and 2012 is summarized in the table below.

		As at 31 December		
		2014	2013	2012
Net Stable Funding Ratio		**114.6%**	**118.6%**	**121.6%**
In thousands of GEL	Factor		Amount	
Available stable funding		**4,135,922**	**3,410,696**	**2,952,368**
Capital: Tier 1 & Tier 2 Capital Instruments		**1,188,187**	**898,278**	**737,179**
Tier 1	100%	**967,495**	675,723	559,359
Tier 2	100%	**220,692**	222,555	177,820
Long Term Funding (year >= 1)		**489,933**	**387,814**	**358,006**
Long Term Borrowings (>=1 year)	100%	**388,378**	319,244	284,372
Subordinated debt not included in Tier 2	100%	**62,043**	34,314	13,120
Other funding (>=1 year)	100%	**39,512**	34,256	60,514
Other Funding		**2,457,802**	**2,124,604**	**1,857,183**
Total Corporate deposits	50%	**416,277**	409,769	401,239
Total SME deposits	80%	**410,160**	365,335	229,866
Total Retail deposits	80%	**1,581,739**	1,288,541	1,117,706
Short term Borrowings with remaining maturity (<1 year)	50%	**47,674**	59,635	107,259
Subordinated Debt (<1 year)	50%	**1,952**	1,324	1,113
Required amount of stable funding		**3,610,370**	**2,874,587**	**2,427,415**
Long term Assets with remaining maturity >=1 year		**2,892,927**	**2,293,969**	**1,884,688**
Reserves in NGB (Stable part)	100%	**332,363**	273,267	256,157
Loans (>=1 year)	100%	**2,268,629**	1,775,280	1,401,093
Fixed and Intangible Assets(>=1 year)	100%	**246,448**	223,159	211,373
Other assets >=1 year)	100%	**22,506**	22,263	16,065
Financial lease receivables (>1 year)	100%	**22,981**	–	–
Short term Assets with remaining maturity <1 year		**682,580**	**551,225**	**515,816**
Loans (<= 1 year)	50%	**668,617**	551,225	515,816
Financial lease receivables (<=1 year)	50%	**13,963**	–	–
Undrawn amount of committed credit and liquidity facilities		**34,863**	**29,393**	**26,911**
Unused credit lines and undisbursed amounts from loans	5%	**14,214**	9,890	8,979
Guarantees	5%	**20,649**	19,503	17,932

Management believes that strong and diversified funding structure is one of TBC's differentiators. TBC relies on relatively stable deposits from Georgia as the main source of funding. In order to maintain and further enhance liability structure TBC sets the targets for retail deposits in its strategy and sets the loan to deposit ratio limits.

Loan to deposit ratio was at 111.6%, 102.5% and 102.0%, at the 31 December 2014, 2013 and 2012 respectively.

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34 Financial and Other Risk Management Continued

Market liquidity risk is the risk that TBC cannot easily offset or eliminate a position at the then-current market price because of inadequate market depth or market disruption. To manage market liquidity risk, TBC Bank follows Basel III guidelines on high-quality liquidity asset eligibility to ensure that the Bank's high-quality liquid assets can be sold without causing a significant movement in the price and with minimum loss of value.

In addition, TBC Bank has a liquidity contingency plan, which forms part of the TBC's overall prudential liquidity policy and is designed to ensure that TBC is able to meet its funding and liquidity requirements and maintain its core business operations in deteriorating liquidity conditions that could arise outside the ordinary course of its business. The plan is updated once a year. Last time it was updated in January 2013.

The Bank calculates liquidity ratio on a daily basis in accordance with the requirements of the NBG. The limit is defined by the NBG for average liquidity ratio, which is calculated as the ratio of average liquid assets to average liabilities for the respective month, including borrowings from financial institutions and part of off-balance sheet liabilities with residual maturity up to 6 months. As at 31 December the ratios were well above the prudential limit set by the NBG as follows:

	2014	2013	2012
Average Liquidity Ratio	31.1%	34.0%	36.6%

According to daily cash flow forecasts, and the surplus in liquidity standing, Treasury Department places funds in short-term liquid assets, largely made up of short-term risk-free securities, interbank deposits and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

Maturity analysis. The table below summarizes the maturity analysis of the Group's financial liabilities as at 31 December 2014 based on remaining undiscounted contractual obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

The maturity analysis of financial liabilities at 31 December 2014 is as follows:

In thousands of GEL	Less than 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities					
Due to Credit institutions	287,557	102,151	377,385	44,602	811,695
Customer accounts – individuals	1,027,688	737,972	250,916	24,333	2,040,909
Customer accounts – other	1,115,065	98,241	113,422	35,865	1,362,593
Other financial liabilities	39,934	1,300	112	–	41,346
Subordinated debt	1,176	19,430	178,206	70,795	269,607
Debt securities in issue	78	236	22,008	–	22,322
Gross settled forwards	190,644	60,213	–	–	250,857
Performance guarantees	27,214	53,553	114,531	517	195,815
Financial guarantees	119,510	91,717	28,024	–	239,251
Other credit related commitments	284,284	–	–	–	284,284
Total potential future payments for financial obligations	**3,093,150**	**1,164,813**	**1,084,604**	**176,112**	**5,518,679**

34 Financial and Other Risk Management Continued

The maturity analysis of financial liabilities at 31 December 2013 is as follows:

In thousands of GEL	Less than 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities					
Due to Credit institutions	158,525	103,522	313,213	42,715	**617,975**
Customer accounts – individuals	917,166	595,740	129,487	13,071	**1,655,464**
Customer accounts – other	988,285	171,952	37,431	86,251	**1,283,919**
Other financial liabilities	23,717	1,133	–	–	**24,850**
Subordinated debt	906	15,418	160,948	76,045	**253,317**
Gross settled forwards	123,799	298	–	–	**124,097**
Performance guarantees	33,582	73,558	54,986	1,741	**163,867**
Financial guarantees	115,453	97,122	21,702	–	**234,277**
Other credit related commitments	197,801	–	–	–	**197,801**
Total potential future payments for financial obligations	**2,559,234**	**1,058,743**	**717,767**	**219,823**	**4,555,567**

The maturity analysis of financial liabilities at 31 December 2012 is as follows:

In thousands of GEL	Less than 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities					
Due to Credit institutions	222,660	98,844	309,509	53,391	**684,404**
Customer accounts – individuals	679,547	583,177	193,330	9,212	**1,465,266**
Customer accounts – other	753,368	142,647	173,640	19,854	**1,089,509**
Other financial liabilities	19,353	109	–	–	**19,462**
Subordinated debt	862	10,998	92,189	78,303	**182,352**
Gross settled forwards	63,094	8,075	–	–	**71,169**
Performance guarantees	47,431	99,154	59,962	–	**206,547**
Financial guarantees	35,482	55,248	28,991	45,865	**165,586**
Other credit related commitments	179,589	–	–	–	**179,589**
Total potential future payments for financial obligations	**2,001,386**	**998,252**	**857,621**	**206,625**	**4,063,884**

The undiscounted financial liability analysis gap does not reflect the historical stability of current accounts. Their liquidation has historically taken place over a longer period than indicated in the tables above. These balances are included in amounts due in less than three months in the tables above.

Term Deposits included in customer accounts are classified based on remaining contractual maturities, although, in accordance with the Georgian Civil Code, individuals have a right to withdraw their deposits prior to maturity if they partially or fully forfeit their right to accrued interest and the Group is obliged to repay such deposits upon demand of a depositor. Based on Bank's deposit retention history, the Management does not expect that many customers will require repayment on the earliest possible date; accordingly, the table does not reflect Management's expectations as to actual cash outflows.

The Group does not use the above undiscounted maturity analysis to manage liquidity. Instead, the Group monitors liquidity gap analysis based on the expected maturities. In particular, the customers' deposits are distributed in the given maturity gaps following their behavioural analysis.

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34 Financial and Other Risk Management Continued

The expected gap may be summarised as follows at 31 December 2014:

In thousands of GEL	Less than 3 months	From 3 to 12 months	Over 1 year	Total
Assets				
Cash and cash equivalents	532,118	–	–	**532,118**
Due from other banks	14	29,179	4,511	**33,704**
Mandatory cash balances with National Bank of Georgia	336,075	–	–	**336,075**
Loans and advances to customers	534,371	770,034	2,252,091	**3,556,496**
Investment securities available for sale	466,510	–	–	**466,510**
Finance lease receivables	10,300	17,627	22,980	**50,907**
Other financial assets	20,280	5,965	17,612	**43,857**
Total financial assets	**1,899,668**	**822,805**	**2,297,194**	**5,019,667**
Liabilities				
Due to Credit institutions	285,677	82,439	381,169	**749,285**
Customer accounts	279,084	–	3,043,344	**3,322,428**
Debt securities in issue	–	–	20,423	**20,423**
Other financial liabilities	39,934	1,300	112	**41,346**
Subordinated debt	1,098	2,805	184,112	**188,015**
Total financial liabilities	**605,793**	**86,544**	**3,629,160**	**4,321,497**
Credit related commitments and performance guarantees				
Performance guarantees	4,912	–	–	**4,912**
Financial guarantees	3,266	–	–	**3,266**
Other credit related commitments	36,644	–	–	**36,644**
Credit related commitments and performance guarantees	**44,822**	**0**	**0**	**44,822**
Net liquidity gap at 31 December 2014	**1,249,053**	**736,261**	**(1,331,966)**	**653,348**
Cumulative gap at 31 December 2014	**1,249,053**	**1,985,314**	**653,348**	

Management believes that the Group has sufficient liquidity to meet its current on- and off-balance sheet obligations.

34 Financial and Other Risk Management Continued

The analysis by expected maturities may be summarised as follows at 31 December 2013:

In thousands of GEL	Less than 3 months	From 3 to 12 months	Over 1 year	Total
Assets				
Cash and cash equivalents	390,465	–	–	390,465
Due from other banks	93	–	1,615	1,708
Mandatory cash balances with National Bank of Georgia	295,332	–	–	295,332
Loans and advances to customers	445,069	623,376	1,733,267	2,801,712
Investment securities available for sale	500,651	–	–	500,651
Finance lease receivables	7,148	11,593	16,872	35,613
Other financial assets	22,103	5,024	17,922	45,049
Total financial assets	**1,660,861**	**639,993**	**1,769,676**	**4,070,530**
Liabilities				
Due to Credit institutions	156,545	90,018	319,243	565,806
Customer accounts	261,546	–	2,625,337	2,886,883
Debt securities in issue	–	4,474	–	4,474
Other financial liabilities	23,717	1,133	–	24,850
Subordinated debt	833	1,814	165,627	168,274
Total financial liabilities	**442,641**	**97,439**	**3,110,207**	**3,650,287**
Credit related commitments and performance guarantees				
Performance guarantees	4,153	–	–	4,153
Financial guarantees	4,927	–	–	4,927
Other credit related commitments	34,962	–	–	34,962
Credit related commitments and performance guarantees	**44,042**	**–**	**–**	**44,042**
Net liquidity gap at 31 December 2013	**1,174,178**	**542,554**	**(1,340,531)**	**376,201**
Cumulative gap at 31 December 2013	**1,174,178**	**1,716,732**	**376,201**	

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34 Financial and Other Risk Management Continued

The analysis by expected maturities may be summarised as follows at 31 December 2012:

In thousands of GEL	Less than 3 months	From 3 to 12 months	Over 1 year	Total
Assets				
Cash and cash equivalents	398,587	–	–	**398,587**
Due from other banks	1,378	28,164	–	**29,542**
Mandatory cash balances with National Bank of Georgia	316,061	–	–	**316,061**
Loans and advances to customers	442,312	560,935	1,366,953	**2,370,200**
Investment securities available for sale	407,733	–	–	**407,733**
Finance lease receivables	4,799	9,127	12,451	**26,377**
Other financial assets	8,973	2,989	13,339	**25,301**
Total financial assets	**1,579,843**	**601,215**	**1,392,743**	**3,573,801**
Liabilities				
Due to Credit institutions	219,787	83,007	324,329	**627,123**
Customer accounts	310,867	87,043	2,089,034	**2,486,944**
Other financial liabilities	19,353	109	–	**19,462**
Subordinated debt	793	1,434	112,853	**115,080**
Total financial liabilities	**550,800**	**171,593**	**2,526,216**	**3,248,609**
Credit related commitments and performance guarantees				
Performance guarantees	2,332	–	–	**2,332**
Financial guarantees	842	–	–	**842**
Other credit related commitments	33,601	–	–	**33,601**
Credit related commitments and performance guarantees	**36,775**	**–**	**–**	**36,775**
Net liquidity gap at 31 December 2012	**992,268**	**429,622**	**(1,133,473)**	**288,417**
Cumulative gap at 31 December 2012	**992,268**	**1,421,890**	**288,417**	

In order to assess the possible outflow of the bank's customer accounts management applied value-at-risk analysis. The statistical data was used on the basis of a holding period of one month for a look-back period of five years with a confidence level of 99%. The value at risk analysis was performed for the following maturity gaps: (0-3 months) and (0-12 months), based on which the maximum percentage of deposits' outflow was calculated.

Management believes that in spite of a substantial portion of customers' accounts being on demand, diversification of these deposits by number and type of depositors, and the past experience of the Group would indicate that these customer accounts provide a long-term and stable source of funding for the Group. Moreover, the Group's liquidity risk management includes estimation of maturities for its current deposits. The estimation is based on statistical methods applied to historic information on fluctuations of customer account balances.

Operating environment. Most of the Group's business in concentrated in Georgia. Emerging economies, such as the Georgian economy, are subject to rapid change and are vulnerable to market conditions and economic downturns elsewhere in the world. As a consequence, operations in Georgia may be exposed to certain risks that are not typically associated with those in developed markets. Nevertheless, over the last few years the Georgian government has changed number of civil, criminal, tax, administrative and commercial laws that have positively affected the overall investment climate of the country. Georgia has an international reputation as a country with a favourable investment environment. For example, in the "Doing Business 2015: Understanding Regulations for Small and Medium-Size Enterprises" report published by the IFC and the World Bank, Georgia was ranked as the fifteenth (out of 189) easiest country in the world in which to do business, ahead of all its neighbouring countries and many EU Member States. Moreover, according to the World Bank & IFC Doing Business Report 2015, Georgia was ranked as the number one in the world in terms of registering property. Georgia is also acknowledged to have low corruption levels as demonstrated by the Transparency International 2013 Global Corruption Barometer.

35 Management of Capital

The Group's objectives when managing capital are (i) to comply with the capital requirements set by the NBG (ii) to safeguard the Group's ability to continue as a going concern and (iii) to comply with Basel Capital Accord 1988 capital adequacy ratios as stipulated by borrowing agreements. Compliance with capital adequacy ratios set by the NBG is monitored monthly with reports outlining their calculation reviewed and signed by the Bank's CFO and Deputy CFO.

35 Management of Capital Continued

Bank and the Group complied with all its internally and externally imposed capital requirements throughout 2012, 2013 and 2014.

NBG Capital adequacy ratio

Under the current capital requirements set by NBG banks have to maintain a ratio of regulatory capital to risk weighted assets ("statutory capital ratio") above the set 12% minimum level and a ratio of Tier 1 capital to risk weighted assets above the set 8% minimum level. In a non-binding letter NBG disclosed intention to introduce additional buffer of 3% over any minimum in the current NBG total capital requirements as calculated in accordance with both current NBG and NBG Basel II Pillar 1 guidelines. Regulatory capital is based on the Bank's standalone reports prepared in accordance with the NBG accounting rules:

In thousands of GEL	2014	2013	2012
Share capital	433,521	261,045	251,785
Retained earnings and other disclosed reserves	402,793	290,585	253,057
General loan loss provisions (up to 1.25 % of risk – weighted assets)	64,627	51,038	44,224
Less intangible assets	(26,123)	(18,197)	(14,048)
Less Investments into subsidiary companies and capital of other banks	(117,962)	(59,129)	(68,615)
Subordinated debt (included in regulatory capital)	116,068	131,312	99,733
Total regulatory capital	**872,924**	**656,654**	**566,136**
Risk-weighted Exposures			
Credit risk weighted assets (including off-balance obligations)	4,125,740	3,340,518	3,030,372
Currency Induced Credit Risk	1,525,435	1,321,561	1,232,923
minus general and special reserves	(155,192)	(166,377)	(137,411)
Risk-weighted assets	**5,495,983**	**4,495,702**	**4,125,884**
Tier 1 Capital adequacy ratio	**12,2%**	**10,6%**	**11,2%**
Total Capital adequacy ratio	**15,9%**	**14,6%**	**13,7%**

The breakdown of the Bank's assets into the carrying amounts based on NBG accounting rules and relevant risk-weighted exposures as of the end of 2014, 2013, 2012 are given in the tables below:

In thousands of GEL	2014	
Risk weighted Exposures	Carrying Value	RW amount
Cash, cash equivalents, Interbank Deposits and Securities	1,426,453	257,522
Gross Loans and accrued interests	3,353,985	4,668,750
Repossessed Assets	67,381	67,381
Fixed Assets and intangible assets	201,721	175,598
Other assets	198,146	112,829
Total	5,247,686	5,282,080
Total Off-balance	868,270	369,095
minus general and special reserves	(155,192)	(155,192)
Total Amount	5,960,764	5,495,983

In thousands of GEL	2013	
Risk weighted Exposures	Carrying Value	RW amount
Cash, cash equivalents, Interbank Deposits and Securities	1,170,286	158,730
Gross Loans and accrued interests	2,713,271	3,829,318
Repossessed Assets	69,143	69,143
Fixed Assets and intangible assets	202,902	184,705
Other assets	143,487	92,255
Total	**4,299,089**	**4,334,151**
Total Off-balance	**615,670**	**327,928**
minus general and special reserves	(166,377)	(166,377)
Total Amount	**4,748,382**	**4,495,702**

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35 Management of Capital Continued

In thousands of GEL Risk weighted Exposures	2012 Carrying Value	 RW amount
Cash, cash equivalents, Interbank Deposits and Securities	1,166,966	180,826
Gross Loans and accrued interests	2,323,789	3,433,936
Repossessed Assets	28,010	28,010
Fixed Assets and intangible assets	198,550	184,502
Other assets	152,965	93,105
Total	**3,870,280**	**3,920,379**
Total Off-balance	**555,768**	**342,916**
minus general and special reserves	(137,411)	(137,411)
Total Amount	**4,288,637**	**4,125,884**

NBG Basel II Capital adequacy ratio

After adoption of NBG Basel II/III requirements the Bank in addition to above capital ratios calculates its capital requirements and risk weighted assets separately for Pillar 1. Detailed instructions of Pillar 1 calculations are given by NBG. The reporting started from the end of 2013. The composition of the Bank's capital calculated in accordance with Basel II (Pillar I) is as follows:

In thousands of GEL	2014	2013	2012
Tier 1 Capital	783,360	526,224	467,509
Tier 2 Capital	163,505	177,950	138,957
Regulatory capital	946,865	704,174	606,466
Risk-weighted Exposures			
Credit Risk Weighted Exposures	5,879,120	4,553,155	4,093,417
Risk Weighted Exposures for Market Risk	27,186	3,946	18,635
Risk Weighted Exposures for Operational Risk	390,378	343,892	343,018
Total Risk-weighted Exposures	6,296,684	4,900,993	4,455,070
Minimum Tier 1 ratio	8.5%	8.5%	8.5%
Tier 1 Capital adequacy ratio	12.4%	10.7%	10.5%
Minimum total capital adequacy ratio	10.5%	10.5%	10.5%
Total Capital adequacy ratio	15.0%	14.4%	13.6%

The breakdown of the Bank's assets into the carrying amounts based on NBG accounting rules and relevant risk-weighted exposures as of the 31 December 2014, 2013 and 2012 are given in the tables below:

In thousands of GEL	2014 Carrying Value	 RW amount
Cash, cash equivalents, Interbank Exposures and Securities	1,524,235	682,162
Gross loans and accrued interests, excluding loans to JSC Bank Constanta	3,254,912	4,330,991
Repossessed Assets	67,381	67,381
Fixed Assets and intangible assets	227,843	187,918
Other assets	199,439	307,609
minus general provision, penalty and interest provision	(48,030)	(48,030)
Total	5,225,780	5,528,031
Total Off-balance	934,174	351,089
Market Risk	27,186	27,186
Operational Risk	273,265	390,378
Total Amount	6,460,405	6,296,684

35 Management of Capital Continued

In thousands of GEL	2013 Carrying Value	2013 RW amount
Cash, cash equivalents, Interbank Exposures and Securities	1,253,675	467,647
Gross loans and accrued interests, excluding loans to JSC Bank Constanta	2,619,707	3,321,301
Repossessed Assets	69,143	69,143
Fixed Assets and intangible assets	202,902	203,833
Other assets	153,663	214,198
minus general provision, penalty and interest provision	(41,837)	(41,837)
Total	**4,257,253**	**4,234,285**
Total Off-balance	**678,453**	**318,870**
Market Risk	**5,180**	**3,946**
Operational Risk	**240,724**	**343,892**
Total Amount	**5,181,610**	**4,900,993**

In thousands of GEL	2012 Carrying Value	2012 RW amount
Cash, cash equivalents, Interbank Exposures and Securities	1,187,804	372,002
Gross loans and accrued interests, excluding loans to JSC Bank Constanta	2,299,656	3,041,501
Repossessed Assets	28,010	28,010
Fixed Assets and intangible assets	198,550	207,791
Other assets	156,259	192,909
minus general provision, penalty and interest provision	(20,128)	(20,128)
Total	**3,850,151**	**3,822,085**
Total Off-balance	617,134	271,332
Market Risk	24,459	18,635
Operational Risk	240,112	343,018
Total Amount	**4,731,856**	**4,455,070**

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35 Management of Capital Continued

Capital adequacy ratio under Basel Capital Accord 1988

The Group and the Bank are also subject to minimum capital requirements established by covenants stated in loan agreements, including capital adequacy levels calculated in accordance with the requirements of the Basel Accord, as defined in the International Convergence of Capital Measurement and Capital Standards (updated April 1998) and Amendment to the Capital Accord to incorporate market risks (updated November 2005), commonly known as Basel I. The composition of the Group's capital calculated in accordance with Basel Accord is as follows:

In thousands of GEL	2014	2013	2012
Tier 1 capital			
Share capital	425,234	259,123	247,644
Retained earnings and disclosed reserves	537,616	404,659	303,022
Less: Goodwill	(2,726)	(2,726)	(2,726)
Non-controlling interest	7,371	14,667	11,419
Total tier 1 capital	**967,495**	**675,723**	**559,359**
Tier 2 capital			
Revaluation reserves	49,255	50,840	41,939
General Reserve	49,367	40,403	36,148
Subordinated debt (included in tier 2 capital)	122,070	131,312	99,733
Total tier 2 capital	**220,692**	**222,555**	**177,820**
Total capital	**1,188,187**	**898,278**	**737,179**
Credit risk weighted assets (including off-balance obligations)	3,949,360	3,232,229	2,891,766
Less: General Reserve	(100,397)	(116,466)	(130,350)
Market Risk	61,864	19,779	25,977
Total Risk-weighted assets	**3,910,827**	**3,135,542**	**2,787,393**
Minimum Tier 1 ratio	**4.0%**	**4.0%**	**4.0%**
Tier 1 Capital adequacy ratio	**24.7%**	**21.6%**	**20.1%**
Minimum total capital adequacy ratio	**8.0%**	**8.0%**	**8.0%**
Total Capital adequacy ratio	**30.4%**	**28.6%**	**26.4%**

Following Basel I guidelines General Reserve is defined by the management as the minimum among the following:

a) IFRS provisions created on loans without impairment trigger event
b) 2% of loans without impairment trigger event
c) 1.25% of total RWA (Risk Weighted Assets)

The breakdown of the Group's assets into the carrying amounts and relevant risk-weighted exposures as of the end of 2014, 2013, 2012 are given in the tables below:

In thousands of GEL Risk weighted Exposures	2014 Carrying Value	 RW amount
Cash and other cash equivalents, mandatory cash balances with the NBG, due from other banks, investment securities available for sale	1,368,407	63,462
Gross loans and accrued interests	3,706,260	3,035,718
Repossessed assets	60,480	60,480
Fixed assets and intangible assets	249,174	246,448
Other assets	188,909	188,909
Total	**5,573,230**	**3,595,017**
Total Off-balance	**1,028,774**	**354,343**
Less: Loan loss provision minus General Reserve	(100,397)	(100,397)
Market Risk	**61,864**	**61,864**
Total Amount	**6,563,471**	**3,910,827**

35 Management of Capital Continued

In thousands of GEL Risk weighted Exposures	2013 Carrying Value	 RW amount
Cash and other cash equivalents, mandatory cash balances with the NBG, due from other banks, investment securities available for sale	1,188,156	38,613
Gross loans and accrued interests	2,958,581	2,419,822
Repossessed assets	49,920	49,920
Fixed assets and intangible assets	225,885	223,159
Other assets	185,402	185,402
Total	**4,607,944**	**2,916,916**
Total Off-balance	**656,386**	**315,313**
Less: Loan loss provision minus General Reserve	(116,466)	(116,466)
Market Risk	**19,779**	**19,779**
Total Amount	**5,167,643**	**3,135,542**

In thousands of GEL Risk weighted Exposures	2012 Carrying Value	 RW amount
Cash and other cash equivalents, mandatory cash balances with the NBG, due from other banks, investment securities available for sale	1,151,923	48,388
Gross loans and accrued interests	2,536,698	2,145,081
Repossessed assets	56,316	56,316
Fixed assets and intangible assets	214,099	211,374
Other assets	107,156	107,156
Total	**4,066,192**	**2,568,315**
Total Off-balance	**622,791**	**323,451**
Less: Loan loss provision minus General Reserve	(130,350)	(130,350)
Market Risk	**25,977**	**25,977**
Total Amount	**4,584,610**	**2,787,393**

36 Contingencies and Commitments

Legal proceedings. The Bank is a defendant in a number of legal claims. When determining the level of provision to be set up in respect of such claims, management uses both internal and external professional advice. The management is of the opinion that no material losses will be incurred in respect of claims, and accordingly no provision has been made in these financial statements.

Tax legislation. Georgian and Azerbaijani tax and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities. Fiscal periods remain open to review by the authorities in respect of taxes for five calendar years preceding the period of review. To respond to the risks, the Group has engaged external tax specialists who are performing periodic reviews of Group's taxation policies and tax filings. The Group's management believes that its interpretation of the relevant legislation is appropriate and the Group's tax and customs positions will be sustained. Accordingly, as at 31 December 2014, 2013 and 2012 no provision for potential tax liabilities has been recorded.

Operating lease commitments. Where the Group is the lessee, as at 31 December 2014, the future minimum lease payments under non-cancellable operating leases over the next year amount to GEL 4,766 thousand (31 December 2013: 4,063 thousand, 31 December 2012: 1,675 thousand).

Compliance with covenants. The Group is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default. The Group was in compliance with covenants as at 31 December 2014, 2013 and 2012.

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36 Contingencies and Commitments Continued

Credit related commitments and financial guarantees. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Financial guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Performance guarantees. Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Such contracts do not transfer credit risk. The risk under performance guarantee contracts is the possibility that the insured event (i.e.: the failure to perform the contractual obligation by another party) occurs. The key risks the Group faces are significant fluctuations in the frequency and severity of payments incurred on such contracts relative to expectations.

Outstanding credit related commitments and performance guarantees are as follows:

In thousands of GEL	2014	2013	2012
Performance guarantees issued	188,440	160,704	160,127
Financial guarantees issued	86,770	95,762	112,997
Undrawn credit lines	284,284	197,801	179,589
Letters of credit	145,958	133,603	88,698
Total credit related commitments and performance guarantees (before provision)	**705,452**	**587,870**	**541,411**
Provision for performance guarantees	(4,912)	(4,153)	(2,332)
Provision for credit related commitments and financial guarantees	(3,266)	(4,927)	(842)
Total credit related commitments and performance guarantees	**697,274**	**578,790**	**538,237**

The total outstanding contractual amount of undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded. Non-cancellable commitments as at 31 December 2014 composed GEL 138,296 thousand (2013: GEL 131,342 thousand; 2012 GEL 124,448 thousand).

Fair value of credit related commitments and financial guarantees as well as performance guarantees were GEL 8,179 thousand at 31 December 2014 (2013: GEL 9,080 thousand; 2012: GEL 3,174 thousand). Total credit related commitments and performance guarantees are denominated in currencies as follows:

In thousands of GEL	2014	2013	2012
Georgian Lari	254,554	218,553	194,178
US Dollars	377,964	299,190	279,563
Euro	46,057	42,388	36,431
Other	26,877	27,739	31,239
Total	**705,452**	**587,870**	**541,411**

Capital expenditure commitments. At 31 December 2014, the Group has contractual capital expenditure commitments amounting to GEL 511 thousand (2013: 2,365 thousand; 2012: nil).

37 Non-Controlling Interest

The following table provides information about each subsidiary that had non-controlling interest as at 31 December 2014:

In thousands of GEL	Place of business (and country of incorporation if different)	Proportion of non-controlling interest	Proportion of non-controlling interest's voting rights held	Profit attributable to non-controlling interest	Accumulated non-controlling interest in the subsidiary	Dividends paid to non-controlling interest during the year
TBC Leasing JSC	Georgia	0.52%	0.52%	6	38	–
TBC Kredit LLC	Azerbaijan	25%	25%	970	7,006	–
United Financial Corporation JSC	Georgia	1.33%	1.33%	24	327	–
Total				**1,000**	**7,371**	–

The summarised financial information of these subsidiaries was as follows at 31 December 2014:

In thousands of GEL	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit	Total comprehensive income	Cash flows
TBC Leasing JSC	43,541	29,236	20,625	44,710	6,130	1,204	1,204	(2,745)
TBC Kredit LLC	45,238	45,927	11,949	47,743	12,881	3,880	3,880	590
United Financial Corporation JSC	2,846	4,772	431	487	9,212	1,792	1,792	432
Total	**91,625**	**79,935**	**33,005**	**92,940**	**28,223**	**6,876**	**6,876**	**(1,723)**

The following table provides information about each subsidiary that had non-controlling interest as at 31 December 2013:

In thousands of GEL	Place of business (and country of incorporation if different)	Proportion of non-controlling interest	Proportion of non-controlling interest's voting rights held	Profit attributable to non-controlling interest	Accumulated non-controlling interest in the subsidiary	Dividends paid to non-controlling interest during the year
TBC Leasing JSC	Georgia	10.47%	10.47%	60	624	–
TBC Kredit LLC	Azerbaijan	25.00%	25.00%	833	6,036	–
United Financial Corporation JSC	Georgia	6.68%	6.68%	35	303	–
Bank Constanta JSC	Georgia	16.15%	16.15%	1,726	7,704	–
Total				**2,654**	**14,667**	–

The summarised financial information of these subsidiaries was as follows at 31 December 2013:

In thousands of GEL	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit	Total comprehensive income	Cash flows
TBC Leasing JSC	33,570	24,212	27,160	24,664	3,767	573	573	996
TBC Kredit LLC	41,867	31,814	26,024	22,150	11,291	3,334	3,334	1,120
United Financial Corporation JSC	1,529	4,712	1,046	286	6,758	522	522	71
Bank Constanta JSC	195,077	150,631	134,591	160,989	55,972	11,271	11,271	2,362
Total	**272,043**	**211,369**	**188,821**	**208,089**	**77,788**	**15,700**	**15,700**	**4,549**

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37 Non-Controlling Interest Continued

The following table provides information about each subsidiary that had non-controlling interest as at 31 December 2012:

In thousands of GEL	Place of business (and country of incorporation if different)	Proportion of non-controlling interest	Proportion of non-controlling interest's voting rights held	Profit attributable to non-controlling interest	Accumulated non-controlling interest in the subsidiary	Dividends paid to non-controlling interest during the year
TBC Leasing JSC	Georgia	10.47%	10.47%	17	564	–
TBC Kredit LLC	Azerbaijan	25.00%	25.00%	509	5,203	–
United Financial Corporation JSC	Georgia	6.68%	6.68%	58	267	–
Bank Constanta JSC	Georgia	16.15%	16.15%	708	5,385	–
Total				**1,292**	**11,419**	–

The summarised financial information of these subsidiaries was as follows at 31 December 2012:

In thousands of GEL	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit	Total comprehensive income	Cash flows
TBC Leasing JSC	24,491	15,439	14,821	19,725	5,766	220	220	2,541
TBC Kredit LLC	34,300	27,919	8,511	32,704	9,239	2,037	2,037	(3,665)
United Financial Corporation JSC	1,161	4,845	1,269	350	5,092	871	871	309
Bank Constanta JSC	159,916	84,573	93,123	116,634	39,195	4,295	4,295	9,441
Total	**219,868**	**132,776**	**117,724**	**169,413**	**59,292**	**7,423**	**7,423**	**8,626**

38 Offsetting Financial Assets and Financial Liabilities

Financial instruments subject to offsetting, enforceable master netting and similar arrangements are as follows at 31 December 2014:

In thousands of GEL	Gross amounts before offsetting in the statement of financial position (a)	Gross amounts set off in the statement of financial position (b)	Net amount after offsetting in the statement of financial position (c) = (a) – (b)	Amounts subject to master netting and similar arrangements not set off in the statement of financial position		Net amount of exposure (c) – (d) – (e)
				Financial instruments (d)	Cash collateral received (e)	
ASSETS						
Cash and Cash Equivalents						
- Placements with other banks with original maturities of less than three months	117,594	26,561	91,033	–	–	91,033
Other financial assets:						
- Receivables on credit card services and money transfers	11,399	1,959	9,440	–	–	9,440
TOTAL ASSETS SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	**128,993**	**28,520**	**100,473**	**–**	**–**	**100,473**
LIABILITIES						
Due to credit institutions	775,846	26,561	749,285	–	–	749,285
Other financial liabilities	43,305	1,959	41,346	–	–	41,346
TOTAL LIABILITIES SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	**819,151**	**28,520**	**790,631**	**–**	**–**	**790,631**

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38 Offsetting Financial Assets and Financial Liabilities Continued

Financial instruments subject to offsetting, enforceable master netting and similar arrangements are as follows at 31 December 2013:

In thousands of GEL	Gross amounts before offsetting in the statement of financial position (a)	Gross amounts set off in the statement of financial position (b)	Net amount after offsetting in the statement of financial position (c) = (a) – (b)	Amounts subject to master netting and similar arrangements not set off in the statement of financial position: Financial instruments (d)	Cash collateral received (e)	Net amount of exposure (c) – (d) – (e)
ASSETS						
Cash and Cash Equivalents						
- Placements with other banks with original maturities of less than three months	115,901	31,871	84,030	–	–	84,030
Other financial assets:						
- Receivables on credit card services and money transfers	7,481	924	6,557	–	–	6,557
TOTAL ASSETS SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	**123,382**	**32,795**	**90,587**	**–**	**–**	**90,587**
LIABILITIES						
Due to credit institutions	597,677	31,871	565,806	–	–	565,806
Other financial liabilities	25,774	924	24,850	–	–	24,850
TOTAL LIABILITIES SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	**623,451**	**32,795**	**590,656**	**–**	**–**	**590,656**

Financial instruments subject to offsetting, enforceable master netting and similar arrangements are as follows at 31 December 2012:

In thousands of GEL	Gross amounts before offsetting in the statement of financial position (a)	Gross amounts set off in the statement of financial position (b)	Net amount after offsetting in the statement of financial position (c) = (a) – (b)	Amounts subject to master netting and similar arrangements not set off in the statement of financial position: Financial instruments (d)	Cash collateral received (e)	Net amount of exposure (c) – (d) – (e)
ASSETS						
Cash and Cash Equivalents						
- Placements with other banks with original maturities of less than three months	78,320	54,671	23,649	–	–	23,649
Other financial assets:						
- Receivables on credit card services and money transfers	4,436	1,087	3,349	–	–	3,349
TOTAL ASSETS SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	**82,756**	**55,758**	**26,998**	**–**	**–**	**26,998**
LIABILITIES						
Due to credit institutions	681,794	54,671	627,123	–	–	627,123
Other financial liabilities	20,549	1,087	19,462	–	–	19,462
TOTAL LIABILITIES SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	**702,343**	**55,758**	**646,585**	**–**	**–**	**646,585**

The amount set off in the statement of financial position reported in column (b) is the lower of (i) the gross amount before offsetting reported in column (a) and (ii) the amount of the related instrument that is eligible for offsetting. Similarly, the amounts in columns (d) and (e) are limited to the exposure reported in column (c) for each individual instrument in order not to understate the ultimate net exposure.

Deposits placed with other banks and deposits received from other banks as part of gross settled currency swap arrangement have been netted-off in these financial statements and the instrument has been presented as either asset or a liability at fair value.

The disclosure does not apply to loans and advances to customers and related customer deposits unless they are netted-off in the statement of financial position.

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39 Derivative Financial Instruments

In the normal course of business, the Group enters into various derivative financial instruments, to manage currency, liquidity and interest rate risks and for trading purposes.

In thousands of GEL	2014	2013	2012
Fair value of gross settled currency swaps, included in other financial assets or due from banks	618	1,221	446
Fair value of foreign exchange forwards and gross settled currency swaps, included in other financial liabilities	(2,502)	–	–
Fair value of Interest rate swaps, included in other financial liabilities	(3,137)	(4,405)	(7,139)
Total	**(5,021)**	(3,184)	(6,693)

Foreign Exchange Forwards and gross settled currency swaps. Foreign exchange derivative financial instruments entered into by the Group are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions. Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

The table below sets out fair values, at the balance sheet date, of currencies receivable or payable under foreign exchange forwards contracts and gross settled currency swaps entered into by the Group. The table reflects gross positions before the netting of any counterparty positions (and payments) and covers the contracts with settlement dates after the respective balance sheet date. The contracts are short term in nature.

	2014		2013		2012	
In thousands of GEL	Contracts with positive fair value	Contracts with negative fair value	Contracts with positive fair value	Contracts with negative fair value	Contracts with positive fair value	Contracts with negative fair value
Foreign exchange forwards and gross settled currency swaps: fair values, at the balance sheet date, of						
- USD payable on settlement (-)	–	(222,231)	–	(91,590)	–	(36,428)
- USD receivable on settlement (+)	29,031	–	31,398	–	26,507	–
- GEL payable on settlement (-)	–	(26,530)	–	–	–	(26,508)
- GEL receivable on settlement (+)	81,865	–	–	(31,569)	41,676	–
- EUR payable on settlement (-)	–	(604)	–	–	–	(8,075)
- EUR receivable on settlement (+)	118,272	–	76,450	–	3,274	–
- Other payable on settlement (-)	–	(1,479)	–	(637)	–	–
- Other receivable on settlement (+)	19,792	–	17,169	–	–	–
Fair value of foreign exchange forwards and gross settled currency swaps	**248,960**	**(250,844)**	**125,017**	**(123,796)**	**71,457**	**(71,011)**
Net fair value of foreign exchange forwards and gross settled currency swaps	**–**	**(1,884)**	**1,221**	**–**	**446**	**–**

Interest rate swaps. In March 2010 TBC Bank entered into interest rate swap agreement, to hedge floating interest rate on its subordinated debt. The hedge covers payment of floating rate interest payments with the notional principal of USD 44,000 thousand. The swap expires in November 2018. At the reporting date fair value of interest rate swaps was estimated to be negative GEL 3,137 thousand (2013: negative GEL 4,405 thousand; 2012: negative GEL 7,139 thousand).

Information on related party balances is disclosed in Note 42.

40 Fair Value Disclosures

(a) Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period. The level in the fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

	31 December 2014			
In thousands of GEL	Level 1	Level 2	Level 3	Total
ASSETS AT FAIR VALUE				
FINANCIAL ASSETS				
Investment securities available for sale				
- Government notes	–	232,934	–	**232,934**
- Certificates of Deposits of National Bank of Georgia	–	198,233	–	**198,233**
- Corporate bonds	–	25,034	–	**25,034**
- Ministry of Finance Treasury Bills	–	476	–	**476**
- Corporate shares (Visa Inc)	6,140	–	–	**6,140**
Foreign exchange forwards and gross settled currency swaps, included in other financial assets or due from banks	–	618	–	**618**
NON-FINANCIAL ASSETS				
- Premises and leasehold improvements	–	–	132,346	**132,346**
TOTAL ASSETS RECURRING FAIR VALUE MEASUREMENTS	6,140	457,295	132,346	**595,781**
LIABILITIES CARRIED AT FAIR VALUE				
FINANCIAL LIABILITIES				
- Interest rate swaps included in other financial liabilities	–	3,137	–	**3,137**
Foreign exchange forwards and gross settled currency swaps, included in other financial liabilities	–	2,502	–	**2,502**
TOTAL LIABILITIES RECURRING FAIR VALUE MEASUREMENTS	–	5,639	–	**5,639**

There were no transfers between levels 1 and 2 during the year ended 31 December 2014 (2013: none, 2012: none).

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40 Fair Value Disclosures Continued

	31 December 2013				31 December 2012			
In thousands of GEL	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
ASSETS AT FAIR VALUE								
FINANCIAL ASSETS								
Investment securities available for sale								
- Government notes	–	173,974	–	**173,974**	–	196,004	–	**196,004**
- Certificates of Deposits of National Bank of Georgia	–	321,140	–	**321,140**	–	187,551	–	**187,551**
- Corporate bonds	–	–	–	**–**	–	–	–	**–**
- Ministry of Finance Treasury Bills	–	–	–	**–**	–	19,210	–	**19,210**
- Corporate shares (Visa Inc)	4,858	–	–	**4,858**	3,156	–	–	**3,156**
Foreign exchange forwards and gross settled currency swaps, included in other financial assets or due from banks	–	1,221	–	**1,221**	–	446	–	**446**
NON-FINANCIAL ASSETS								
- Premises and leasehold improvements	–	–	138,939	**138,939**	–	–	130,878	**130,878**
TOTAL ASSETS RECURRING FAIR VALUE MEASUREMENTS	4,858	496,335	138,939	**640,132**	3,156	403,211	130,878	**537,245**
LIABILITIES CARRIED AT FAIR VALUE								
FINANCIAL LIABILITIES								
- Interest rate swaps included in other financial liabilities	–	4,405	–	**4,405**	–	7,139	–	**7,139**
Foreign exchange forwards and gross settled currency swaps, included in other financial liabilities	–	–	–	**–**	–	–	–	**–**
TOTAL LIABILITIES RECURRING FAIR VALUE MEASUREMENTS	–	4,405	–	**4,405**	–	7,139	–	**7,139**

There were no transfers between levels 1 and 2 during the year ended 31 December 2014 (2013: none, 2012: none).

40 Fair Value Disclosures Continued

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements:

In thousands of GEL	Fair value at 31 December 2014	2013	2012	Valuation technique	Inputs used
ASSETS AT FAIR VALUE					
FINANCIAL ASSETS					
Certificates of Deposits of NBG, Ministry of Finance Treasury Bills, Government notes, Corporate bonds	**456,677**	495,114	402,765	Discounted cash flows ("DCF")	Government bonds yield curve
Foreign exchange forwards and gross settled currency swaps, included in due from banks	**618**	1,221	446	Forward pricing using present value calculations	Official exchange rate, risk-free rate
TOTAL ASSETS RECURRING FAIR VALUE MEASUREMENTS	**457,295**	**496,335**	**403,211**		
LIABILITIES CARRIED AT FAIR VALUE					
FINANCIAL LIABILITIES					
Other financial liabilities					
- Interest rate swaps included in other financial liabilities	**3,137**	4,405	7,139	Swap model using present value calculations	Observable yield curves
- Foreign exchange forwards included in other financial liabilities	**2,502**	–	–	Forward pricing using present value calculations	Official exchange rate, risk-free rate
TOTAL RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 2	**5,639**	**4,405**	**7,139**		

There were no changes in valuation technique for level 2 and level 3 recurring fair value measurements during the year ended 31 December 2014 (2013: none; 2012: none).

For description of the techniques and inputs used for Level 3 recurring fair value measurement of (as well as reconciliation of movements in) premises refer to Note 14. The unobservable input to which the fair value estimate for premises is most sensitive is price per square meter: the higher the price per square meter, the higher the fair value.

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40 Fair Value Disclosures Continued

(b) Assets and liabilities not measured at fair value but for which fair value is disclosed

Fair values analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value are as follows:

	31 December 2014			
In thousands of GEL	Level 1	Level 2	Level 3	Carrying Value
FINANCIAL ASSETS				
Cash and cash equivalents	532,118	–	–	532,118
Due from other banks	33,704	–	–	33,704
Mandatory cash balances with the NBG	–	336,075	–	336,075
Loans and advances to customers:				
- Corporate loans	–	–	1,221,155	1,140,503
- Consumer loans	–	–	780,259	744,290
- Mortgage loans	–	–	729,013	707,979
- Small and micro loans	–	–	533,527	528,631
- Micro	–	–	264,303	266,091
- Others	–	–	168,231	169,002
Investments in leases	–	–	50,907	50,907
Other financial assets	–	–	43,239	43,239
NON-FINANCIAL ASSETS	–	–		
Investment properties, at cost	–	–	79,057	76,216
TOTAL ASSETS	**565,822**	**336,075**	**3,869,691**	**4,628,755**
FINANCIAL LIABILITIES				
Due to credit institutions	–	749,285	–	749,285
Customer accounts	–	1,857,089	1,483,891	3,322,428
Debt securities in issue	–	20,423	–	20,423
Other financial liabilities	–	35,707	–	35,707
Subordinated debt	–	188,015	–	188,015
TOTAL LIABILITIES	**–**	**2,850,519**	**1,483,891**	**4,315,858**

40 Fair Value Disclosures Continued

In thousands of GEL	31 December 2013 Level 1	Level 2	Level 3	Carrying Value	31 December 2012 Level 1	Level 2	Level 3	Carrying Value
FINANCIAL ASSETS								
Cash and cash equivalents	390,465	–	–	390,465	398,587	–	–	398,587
Due from other banks	1,708	–	–	1,708	29,542	–	–	29,542
Mandatory cash balances with the NBG	–	295,332	–	295,332	–	316,061	–	316,061
Loans and advances to customers:								
- Corporate loans	–	–	1,172,503	1,049,668	–	–	1,046,831	1,029,112
- Consumer loans	–	–	607,940	571,730	–	–	455,020	451,548
- Mortgage loans	–	–	519,180	491,136	–	–	375,406	372,230
- Small and micro loans	–	–	397,229	388,131	–	–	293,294	289,397
- Micro	–	–	193,784	196,395	–	–	134,010	141,570
- Others	–	–	103,896	104,652	–	–	85,449	86,343
Investments in leases	–		35,613	35,613	–	–	26,377	26,377
Other financial assets	–		43,828	43,828	–	–	24,855	24,855
NON-FINANCIAL ASSETS								
Investment properties, at cost			86,480	83,383	–	–	34,928	34,305
TOTAL ASSETS	**392,173**	**295,332**	**3,160,453**	**3,652,041**	**428,129**	**316,061**	**2,476,170**	**3,199,927**
FINANCIAL LIABILITIES								
Due to credit institutions	–	565,806	–	565,806	–	627,123	–	627,123
Customer accounts	–	1,690,812	1,206,300	2,886,883	–	1,094,556	1,392,388	2,486,944
Debt securities in issue	–	4,474	–	4,474		–	–	–
Other financial liabilities	–	20,445	–	20,445	–	12,323	–	12,323
Subordinated debt	–	168,274	–	168,274	–	115,080	–	115,080
TOTAL LIABILITIES	**–**	**2,449,811**	**1,206,300**	**3,645,882**	**–**	**1,849,082**	**1,392,388**	**3,241,470**

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40 Fair Value Disclosures Continued

The fair values in level 2 and level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of investment properties was estimated using market comparatives (refer to Note 3).

Amounts due to credit institutions were discounted at the Group's own incremental borrowing rate. Liabilities due on demand were discounted from the first date that the amount could be required to be paid by the Group.

There were no changes in valuation technique for level 2 and level 3 measurements of assets and liabilities not measured at fair values during the year ended 31 December 2014 (2013: none; 2012: none).

41 Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IAS 39, Financial Instruments: Recognition of Measurement, classifies financial assets into the following categories: (a) loans and receivables; (b) available for sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss ("FVTPL"). Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2014:

In thousands of GEL	Loans and receivables	Available for sale assets	Finance lease receivables	Assets designated at FVTPL	Total
ASSETS					
Cash and cash equivalents	–	–	–	–	**532,118**
Due from other banks	33,704	–	–	–	**33,704**
Mandatory cash balances with the National Bank of Georgia	336,075	–	–	–	**336,075**
Loans and advances to customers	3,556,496	–	–	–	**3,556,496**
Investment securities available for sale	–	466,510	–	–	**466,510**
Investments in leases	–	–	50,907	–	**50,907**
Other financial assets:					
- Other financial receivables	43,239	–	–	618	**43,857**
TOTAL FINANCIAL ASSETS	**3,969,514**	**466,510**	**50,907**	**618**	**5,019,667**
NON-FINANCIAL ASSETS	**–**	**–**	**–**	**–**	**403,799**
TOTAL ASSETS	**–**	**–**	**–**	**–**	**5,423,466**

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2013:

In thousands of GEL	Loans and receivables	Available for sale assets	Finance lease receivables	Assets designated at FVTPL	Total
ASSETS					
Cash and cash equivalents	–	–	–	–	**390,465**
Due from other banks	1,708	–	–	–	**1,708**
Mandatory cash balances with the National Bank of Georgia	295,332	–	–	–	**295,332**
Loans and advances to customers	2,801,712	–	–	–	**2,801,712**
Investment securities available for sale	–	500,651	–	–	**500,651**
Investments in leases	–	–	35,613	–	**35,613**
Other financial assets:					
- Other financial receivables	43,828	–	–	1,221	**45,049**
TOTAL FINANCIAL ASSETS	**3,142,580**	**500,651**	**35,613**	**1,221**	**4,070,530**
NON-FINANCIAL ASSETS	**–**	**–**	**–**	**–**	**380,545**
TOTAL ASSETS	**–**	**–**	**–**	**–**	**4,451,075**

41 Presentation of Financial Instruments by Measurement Category Continued

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2012:

In thousands of GEL	Loans and receivables	Available for sale assets	Finance lease receivables	Assets designated at FVTPL	Total
ASSETS					
Cash and cash equivalents	–	–	–	–	**398,587**
Due from other banks	29,407	–	–	135	**29,542**
Mandatory cash balances with the National Bank of Georgia	316,061	–	–	–	**316,061**
Loans and advances to customers	2,370,200	–	–	–	**2,370,200**
Investment securities available for sale	–	407,733	–	–	**407,733**
Investments in leases	–	–	26,377	–	**26,377**
Other financial assets:					
- Other financial receivables	24,855	–	–	446	**25,301**
TOTAL FINANCIAL ASSETS	**2,740,523**	**407,733**	**26,377**	**581**	**3,573,801**
NON-FINANCIAL ASSETS	**–**	**–**	**–**	**–**	**325,893**
TOTAL ASSETS	**–**	**–**	**–**	**–**	**3,899,694**

As at 31 December 2014, 2013 and 2012, all of the Group's financial liabilities except for derivatives are carried at amortised cost. Derivatives belong to the fair value through profit or loss measurement category.

42 Related Party Transactions

Parties are generally considered to be related if the parties are under common control or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Parties that hold more than 6% of ownership stake in the Bank or have their representatives in the Supervisory board are considered as Significant Shareholders. Included in key management personnel are members of the Supervisory Board, the Management Board and close members of the family.

At 31 December 2014, the outstanding balances with related parties were as follows:

In thousands of GEL	Note	Significant shareholders	Key management personnel
Gross amount of loans and advances to customers (contractual interest rate: 7.5 – 23%)		5,383	1,315
Impairment provisions for loans and advances to customers		190	9
Derivative financial liability	39	3,137	–
Due to credit institutions (contractual interest rate: 0 – 13 %)		63,542	–
Customer accounts (contractual interest rate: 0 – 9.5 %)		5,925	7,302
Subordinated debt (contractual interest rate: 9.2 – 12 %)		102,859	–

The income and expense items with related parties except from key management compensation for the year 2014 were as follows:

In thousands of GEL	Note	Significant shareholders	Key management personnel
Interest income		551	114
Interest expense		15,408	350
Gains less losses from trading in foreign currencies		56	26
Foreign exchange translation gains less losses		331	51
Fee and commission income		9	10
Fee and commission expense		926	–
Administrative and other operating expenses (excluding staff costs)		70	164
Net loss on derivative financial instruments	39	(683)	–

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42 Related Party Transactions Continued

Aggregate amounts of loans advanced to and repaid by related parties during 2014 were:

In thousands of GEL	Significant shareholders	Key management personnel
Amounts advanced to related parties during the year	2,074	3,042
Amounts repaid by related parties during the year	(7,501)	(3,204)

At 31 December 2013, the outstanding balances with related parties were as follows:

In thousands of GEL	Note	Significant shareholders	Key management personnel
Gross amount of loans and advances to customers (contractual interest rate: 13 – 26 %)		9,928	1,312
Impairment provisions for loans and advances to customers		152	15
Derivative financial liability	39	4,405	–
Due to credit institutions (contractual interest rate: 0 – 13 %)		67,894	–
Customer accounts (contractual interest rate: 0 – 13 %)		5,421	4,598
Subordinated debt (contractual interest rate: 5 – 11 %)		95,458	–

The income and expense items with related parties except from key management compensation for the year 2013 were as follows:

In thousands of GEL	Note	Significant shareholders	Key management personnel
Interest income		1,527	159
Interest expense		14,596	352
Gains less losses from trading in foreign currencies		67	9
Foreign exchange translation (losses less gains) / gains less losses		(227)	50
Fee and commission income		10	7
Fee and commission expense		993	–
Administrative and other operating expenses (excluding staff costs)		67	205
Net gain on derivative financial instruments	39	613	–

Aggregate amounts of loans advanced to and repaid by related parties during 2013 were:

In thousands of GEL	Significant shareholders	Key management personnel
Amounts advanced to related parties during the year	4,246	1,751
Amounts repaid by related parties during the year	(8,756)	(2,218)

At 31 December 2012, the outstanding balances with related parties were as follows:

In thousands of GEL	Note	Significant shareholders	Key management personnel	Other related parties
Gross amount of loans and advances to customers (contractual interest rate: 13 – 26 %)		13,137	1,571	15,358
Impairment provisions for loans and advances to customers		250	19	318
Derivative financial liability	39	7,139	–	–
Due to credit institutions (contractual interest rate: 0 – 13 %)		161,767	–	–
Customer accounts (contractual interest rate: 0 – 13 %)		3,839	4,530	22,192
Subordinated debt (contractual interest rate: 5 – 11 %)		61,122	–	–

42 Related Party Transactions Continued

The income and expense items with related parties except from key management compensation for the year 2012 were as follows:

In thousands of GEL	Note	Significant shareholders	Key management personnel	Other related parties
Interest income		1,757	261	1,644
Interest expense		16,805	386	565
Provision for loan impairment		–	–	26
Gains less losses from trading in foreign currencies		8	4	392
Foreign exchange translation (losses less gains) / gains less losses		(106)	2	926
Fee and commission income		11	5	376
Administrative and other operating expenses (excluding staff costs)		17	133	–
Net loss on derivative financial instruments	39	(3,804)	–	–

At 31 December 2012, other rights and obligations with related parties were as follows:

In thousands of GEL	Significant shareholders	Key management personnel	Other related parties
Guarantees issued by the Group at the year end	–	–	5,401

Aggregate amounts of loans advanced to and repaid by related parties during 2012 were:

In thousands of GEL	Significant shareholders	Key management personnel	Other related parties
Amounts advanced to related parties during the year	1,816	1,018	15,253
Amounts repaid by related parties during the year	(5,041)	(1,994)	(9,398)

Compensation of the key management personnel and supervisory board members is presented below:

	2014		2013		2012	
In thousands of GEL	Expense	Accrued liability	Expense	Accrued liability	Expense	Accrued liability
Salaries and bonuses	**10,096**	**3,929**	8,783	3,798	7,256	3,983
Cash settled bonuses related to share-based compensation	**1,463**	**2,012**	1,692	1,692	676	432
Equity-settled share-based compensation	**2,192**	**–**	1,671	–	2,700	–
Total	**13,751**	**5,941**	**12,146**	**5,490**	**10,632**	**4,415**

43 Events after the balance sheet date

Subsequent to 31 December 2014, the Group has completed the legal and operational process of merging JSC Bank Constanta with TBC Bank. The former operations of Bank Constanta will now be undertaken by TBC Bank as the sole legal entity.

On 27 January 2015 the Group acquired micro loans portfolio with the carrying amount of GEL 37,300 thousand from ProCredit Bank Georgia, the fifth largest bank by total assets. The consideration paid amounted to GEL 40,000 thousand.

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Additional Information

Shareholders' Meetings
According to the Charter, regular General Meetings of Shareholders must be convened annually not later than three months from the day of preparation of the annual balance sheet. Extraordinary General Meetings of Shareholders must be convened within 20 days from submission of the written request of the Management Board, Supervisory Board or shareholders holding at least 5% of the Shares of TBC Bank. Shareholders may request the convening of a General Meeting of Shareholders only if at least one month has elapsed since the date of the prior General Meeting of Shareholders. If shareholder(s) holding at least 5% of the Shares request that an Extraordinary General Meeting of Shareholders is convened and the only item on the agenda is the dismissal of Management Board member(s), the Supervisory Board must call the meeting within 20 days, otherwise the shareholders themselves may convene the meeting.

The time, place and the agenda of the General Meeting of Shareholders shall be published in printed media at least 20 days prior to the date of such General Meeting of Shareholders. Shareholders holding at least 1% of the Shares should also be notified about the General Meeting of Shareholders via registered mail. The Supervisory Board shall set a reporting date which cannot be earlier than 45 days before the scheduled General Meeting of Shareholders. Only those shareholders who were shareholders of record as of the reporting date set by the Supervisory Board may participate in the General Meeting of Shareholders.

Any shareholder holding a ordinary share may attend and vote at the meeting personally or through proxy and the quorum of the General Meeting of Shareholders is satisfied if the holders of more than 50% of all votes are present or represented at the General Meeting of Shareholders. If the General Meeting of Shareholders is not quorate, the Supervisory Board must convene a new General Meeting of Shareholders with the same agenda, which will be quorate if the holders of more than 25% of all votes are present or represented. If the General Meeting of Shareholders convened for the second time is not quorate, the Supervisory Board must convene a further General Meeting of Shareholders with the same agenda, which will be quorate irrespective of the number of shareholders present or represented at the General Meeting of Shareholders.

General Meetings of Shareholders are presided over by the chairman of the Supervisory Board or, in his absence, by the deputy chairman of the Supervisory Board. In the event that the latter is also absent, the meeting is presided over by one of the other directors.

Dialogue with Shareholders
Per usual practice, the Chairman and the Deputy Chairman of the Supervisory Board discuss the Bank's governance and strategy with major shareholders and ensure that the views of shareholders are communicated to the Board as a whole. Among other things, these meetings include the Chairman's participation in the non-deal roadshows post-listing. Non-executive directors together with the executive directors have the opportunity to attend scheduled meetings with the major shareholders to gain a balanced understanding of their issues and concerns.

Dividend Policy
On 8 April 2009 the Management Board adopted, and the Supervisory Board approved, the Capital Management and Dividend Planning Policy of TBC Bank in order to ensure current capital adequacy, to plan for future capital needs and project efficient dividend payouts. The general objective of the Dividend Policy is to manage the capital position with the regular dividend payouts in the amount that will not only ensure compliance with internal regulations but also ensure capital adequacy for TBC's future expansion.

On 4 March 2014, the GMS approved a distribution in the amount of GEL 26,492,294 to the shareholders (equivalent to 25% of TBC Bank's net profit), which was paid on 4 March 2014. On 26 February 2014, the Supervisory Board approved a resolution, beginning in 2015, to annually distribute 25% of TBC's consolidated net income for the previous year as a dividend to shareholders, provided that the financial standing of TBC Bank allows such distribution.

TBC's dividend strategy is based on two major priorities: (i) maintaining adequate capital for TBC Bank; and (ii) ensuring consistency of dividend payment to shareholders in sufficient amounts. Excessive dividends will not be paid out if it jeopardizes TBC's current capital adequacy or future growth opportunities. Dividend payments are made only when: (a) the dividends are in compliance with TBC Bank's approved capital plan; (b) the dividend amounts are in accordance with all regulatory requirements and internal regulations of TBC Bank, thus not putting in jeopardy future expansion; and (c) the dividend payments do not adversely impact TBC's capital structure and related regulatory capital ratio requirements.

Disclaimer

By reading this Report, you acknowledge and agree to be bound by the following:

None of the future projections, expectations, estimates or prospects in this Report should be taken as forecasts or promises nor should they be taken as implying any indication, assurance or guarantee that the assumptions on which such future projections, expectations, estimates or prospects have been prepared are correct or exhaustive or, in the case of the assumptions, fully stated in the Report. These forward-looking statements speak only as at the date as of which they are made, and the Bank expressly disclaims any obligation or undertaking to disseminate any updates or revisions to any forward-looking statements contained in the Report to reflect actual results, changes in assumptions or changes in factors affecting these statements.

The information and opinions contained in this Report are provided as at the date of the Report, are based on general information gathered at such date and are subject to change without notice. The Bank relies on information obtained from sources believed to be reliable but does not guarantee its accuracy or completeness.

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